

Pennsylvania

Public School Employees' Retirement System

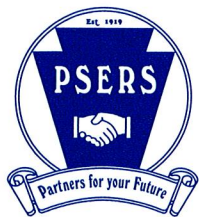
Budget Report

FISCAL YEAR

2011/2012

House Appropriations Committee

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD



MELVA S. VOGLER
Chairman

SALLY J. TURLEY
Vice Chairman

March 21, 2011

Members of the House Appropriations Committee

Dear Members:

On behalf of the Public School Employees' Retirement System (PSERS), I am pleased to present the accompanying report on the financial, actuarial, and investment operations of PSERS and the budgetary projections for the 2011-2012 fiscal year. In addition, PSERS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010 (FY2010) is also attached.

PSERS is responsible for administering a defined benefit pension plan for over 578,000 active and retired public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment healthcare programs, the Premium Assistance Program and the Health Options Program (HOP) for its annuitants. Some highlights of recent activities follow:

Financial Highlights

- For the fiscal year ended June 30, 2010 (FY2010) PSERS' investment portfolio generated a rate of return of 14.59%. Since that time period the investment markets have continued to improve. PSERS' returned a positive 13.29 percent and added net investment income of \$5.6 billion for the six month fiscal year-to-date period ended December 31, 2010.
- PSERS' total plan net assets increased by \$2.6 billion from \$43.2 billion at June 30, 2009 to \$45.8 billion at June 30, 2010. The increase is primarily attributable to net investment income plus member and employer contributions exceeding the deductions for benefits and administrative expenses. PSERS total plan net assets as of December 31, 2010 is \$49.8 billion.
- While the economy slowly recovered in FY2010, the Board continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund with respect to its funding status. The annualized rate of return for the twenty-five year period ended December 31, 2010 was 9.01% and exceeded the Fund's long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.
- PSERS continues to benefit from managing almost 1/3 of its assets internally including operating its own equity trading room. For FY2010 PSERS' internal asset management produced savings of \$21.2 million and additional excess performance of \$135.3 million.

- Total member contributions increased from \$1.09 billion for the fiscal year ended June 30, 2009 (FY2009) to \$1.14 billion in FY2010 as a result of the increase in total active member payroll and an increase in the average member contribution rate from 7.29% in FY2009 to 7.32% in FY2010. Total employer contributions increased from \$608.4 million in FY2009 to \$638 million in FY2010 due to an increase in the employer contribution rate (ECR) from 4.76% in FY2009 to 4.78% in FY2010. The current employer contribution rate for the fiscal year ending June 30, 2011 is 5.64% and will increase to 8.65% in the fiscal year ending June 30, 2012 (FY2012).
- PSERS total administrative budget request recommended by the Governor's Budget Office is \$44.107 million for Fiscal Year 2011-2012 compared to \$43.528 million available for Fiscal Year 2010-2011.

Funded Status

- PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 75.1% funded as of June 30, 2010. This represents a decrease from PSERS' 79.2% funded status as of June 30, 2009.

Investment and Pennsylvania Commitment

- PSERS has a continuing commitment to Pennsylvania companies by contracting with Pennsylvania-based investment advisor companies and by investing in Pennsylvania-based companies where investment characteristics, including yield, risk, and liquidity, are equivalent. Data on Pennsylvania investments is contained in the accompanying report.
- Total PSERS' benefit expense increased by \$400 million from \$4.9 billion in FY 2009 to \$5.3 billion in FY 2010. This increase is attributable to the number of new retirements for the year, higher lump sum payments as well as an ongoing increase to the average monthly benefit. New retirements in FY 2010 outpaced those of FY 2009 by approximately 5.0%.
- Since 91% was distributed to Commonwealth residents, a substantial portion of PSERS' estimated \$5.3 billion annual payroll remains in Pennsylvania, thus benefiting the economy of the Commonwealth.

Passage of Act 120 of 2010

- During the past year significant progress was made toward addressing funding issues at the System. On November 23, 2010 pension reform legislation, Act 120 of 2010, was signed into law. This legislation made a series of actuarial changes to the Fund as well as substantial benefit reductions for new members hired after July 1, 2011. As a result, benefits earned by new members will be almost entirely funded by the member and new pension liabilities will grow at a much slower rate. Over time, the employer normal cost will be dramatically reduced to 2.56% as a result of the benefit reductions for new members.
- The actuarial changes in Act 120 also put a plan in place to pay off existing pension liabilities. Over the next few years, rate caps will keep the employer contribution rate from rising too high too fast which continues the underfunding of the System. Underfunding the System compounds the existing pension liabilities and creates further funding issues. The Systems' unfunded liabilities will be paid over a long-term 24 year amortization period.

- Act 120 has also provided both the Commonwealth and the School employers with a five to nine year time horizon to gradually increase contributions to PSERS in a more budgetary feasible manner than the rate spike under previous law. The process now becomes an appropriation challenge to meet the gradual funding increases provided for in Act 120. The Governor's Budget fully funds the Commonwealth's portion of the employer contribution rate of 8.65% for FY2011/2012 in compliance with Act 120.

As in the past, PSERS remains committed to providing all available assistance to the General Assembly to help meet the appropriation challenges.

In conclusion, please contact Jeffrey B. Clay, PSERS Executive Director, if you have any questions or would like additional information.

Respectfully,

A handwritten signature in cursive script that reads "Melva S. Vogler".

Melva S. Vogler
Chairman of the Board

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**Pennsylvania
Public School Employees'
Retirement System**

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

**2011/2012 Budget Report
House Appropriations Committee
March 21, 2011**

Melva S. Vogler
Chairman
Board of Trustees

Sally J. Turley
Vice Chairman
Board of Trustees

Jeffrey B. Clay
Executive Director

Report prepared by the Public School Employees' Retirement System staff

**2011/2012 Budget Hearing Materials
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Comprehensive Annual Financial Report..... See separate document

Section 1 - PSERS Overview





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Overview

Established on July 18, 1917, with operations commencing in 1919, the Pennsylvania Public School Employees' Retirement System (PSERS or System) provides retirement benefits to public school employees of the Commonwealth of Pennsylvania.

As of June 30, 2010, the System had approximately 282,000 active members. The annuitant membership was comprised of approximately 185,000 retirees and beneficiaries who received average monthly pension benefit payments of over \$345 million including healthcare premium assistance. The average yearly pension benefit paid to annuitants was \$23,466. PSERS had 749 participating employers on June 30, 2010.

As reported in the latest Pension and Investments survey published February 7, 2011, PSERS is the 27th largest plan among United States corporate and public pension plans, and the 16th largest state-sponsored defined benefit public pension fund in the nation. The net asset value of PSERS' investment portfolio was approximately \$49.3 billion as of December 31, 2010.

During the 2010 fiscal year the overall gross distribution of pension benefits including monthly benefits, direct rollovers, survivor benefits and refunds totaled \$5.3 billion. Of this amount, 91% was distributed to Pennsylvania residents representing PSERS' significant impact on the Commonwealth's economy.

Mission Statement

The Board of Trustees and the employees of the Public School Employees' Retirement System serve the members and stakeholders of the System by:

- Providing timely and accurate payment of benefits,
- Maintaining a financially sound System,
- Prudently investing the assets of the System,
- Clearly communicating members' and employers' rights and responsibilities, and
- Effectively managing the resources of the System.





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PSERS Board of Trustees

Melva S. Vogler, Chairman

Sally J. Turley, Vice Chairman

Honorable Patrick M. Browne
Senate of Pennsylvania

Tina Byles-Williams

Glen S. Galante

Thomas J. Gentzel

Honorable Glen Grell
House of Representatives

Honorable Shirley Kitchen
Senate of Pennsylvania

Honorable Joseph F. Markosek
House of Representatives

Honorable Robert M. McCord
Treasurer of Pennsylvania

Hal Moss

Richard N. Rose

James M. Sando

Ronald J. Tomalis
Secretary of Education

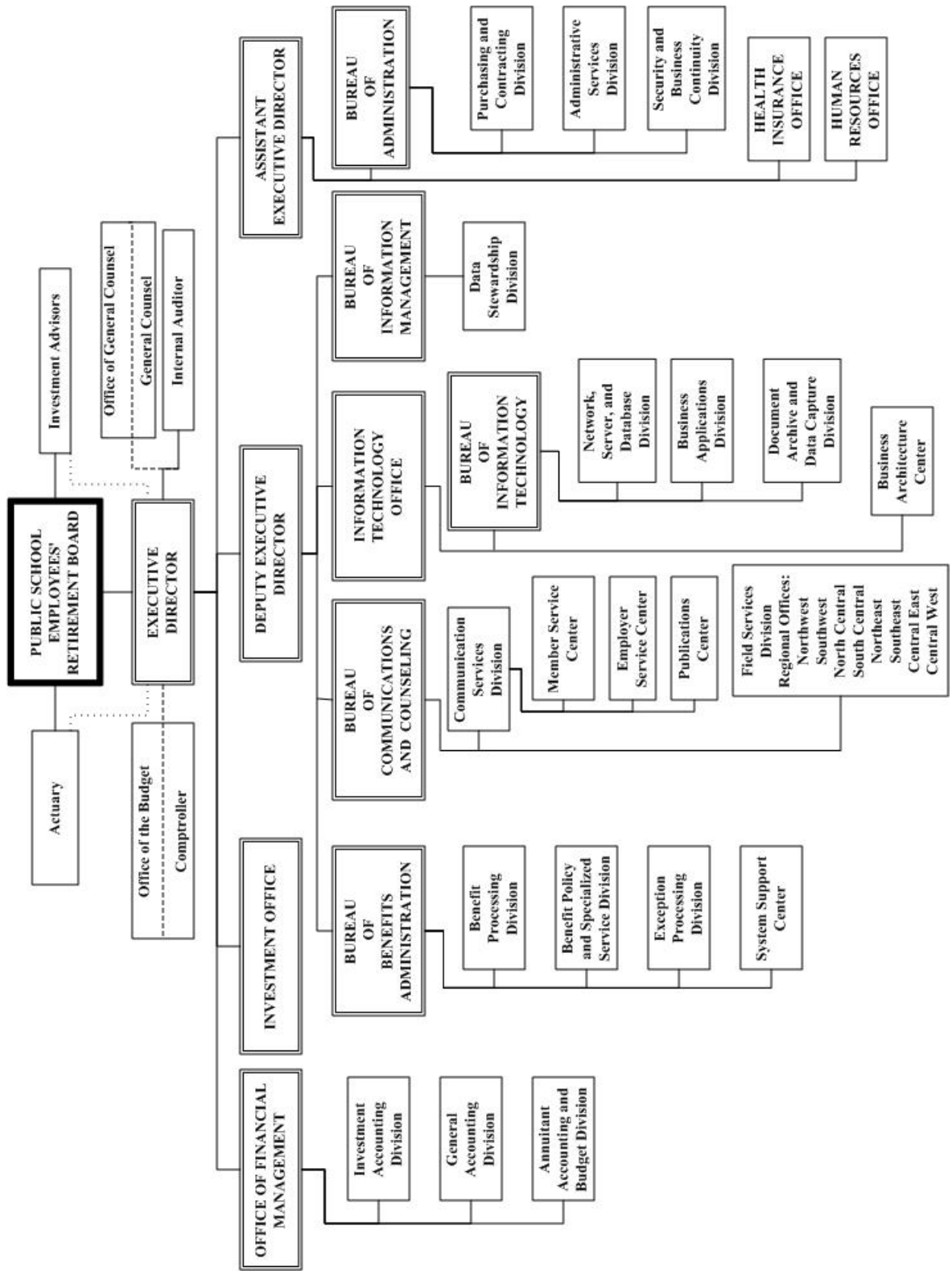
Patricia A. Tozer

PSERS Board Members as of February 14, 2011



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Organization Public School Employees' Retirement System Organizational Chart



Organizational Structure of the Public School Employees' Retirement System

Executive Office

This office is responsible for the overall management of the Public School Employees' Retirement System (PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board). Reporting directly to the Executive Director are the Deputy Executive Director, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals.

Chief Counsel's Office

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. The Legal staff is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

Internal Auditor's Office

This office performs systematic reviews of the various PSERS activities, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of PSERS' internal control system.

Office of Financial Management

This office is directed by the Chief Financial Officer and has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America. Oversight is provided for new accounting systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: General Accounting Division, Annuitant Accounting and Budget Division, and Investment Accounting Division.

Deputy Executive Director

The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. Additionally, this position supervises a Chief Technology Officer who oversees business and information technology strategic planning, policy development, and implementation. The organizational units directly reporting to this position include the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management. The position oversees the Bureau of Information Technology through the Chief Technology Officer.

Information Technology Office

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans and policies are aligned with, in support of, and prioritized according to agency needs and requirements, as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's information technology staff. Large information technology contracts and projects are managed by this office. This office is responsible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, processes, information systems, and the relationships among these components so that PSERS is able to: conduct its business consistently and according to established rules; understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals; fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others; more effectively identify inefficient, duplicate, or suspect processes, and/or technologies; and account for its organizational business rules and processes, information systems and technologies.

Organizational Structure (continued)

Bureau of Information Technology

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Technology Officer, and for providing operational support for those technologies and initiatives. The bureau is organized into three divisions: the Network, Server, and Database Division, the Business Applications Division, and the Document Archive and Data Capture Division.

Bureau of Information Management

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting section.

Bureau of Benefits Administration

This bureau is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 749 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, Benefit Policy and Specialized Service Division, and Exception Processing Division.

Bureau of Communications and Counseling

This bureau is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations, and the public. It is organized into two divisions: the Field Services Division and the Communications Services Division.

Assistant Executive Director

This position reports to the Executive Director and provides assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

Bureau of Administration

This bureau is responsible for facilities, purchasing and contracting, documenting administrative policies and procedures, business continuity, automotive, mail, imaging, printing and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, the Administrative Services Division and the Security and Business Continuity Division.

Human Resources Office

This office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunities and other miscellaneous programs.

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering PSERS' health insurance Premium Assistance benefits. The HOP is a voluntary program that provides group health insurance coverage for 71,000 (at January 1, 2011) school retirees, their spouses, and eligible dependents.



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Organizational Structure (continued)

PSERS' Regional Offices

There are eight PSERS Regional Offices strategically located throughout the Commonwealth. These offices provide services to both active and retired PSERS members and 749 employers. Among these services are regularly scheduled retirement counseling meetings and other informational presentations on various topics relating to retirement benefits and programs. See map on next page.

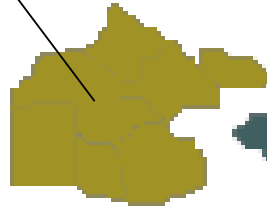
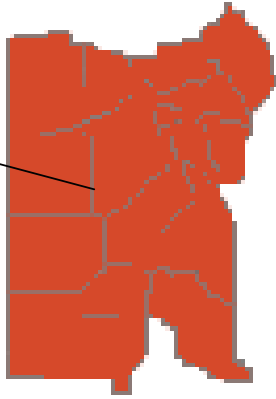
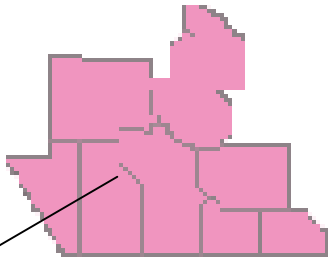
Services provided to PSERS' Members (by the Bureau of Communications and Counseling and/or the Bureau of Benefits Administration)			
	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
Number of General Information Programs	224	197	209
Number of Members Attended	12,663	10,850	12,372
Number of Exit Counseling (small group) Sessions	1,005	908	909
Number of Members Attended	7,904	6,438	7,466
Individual Counseling Sessions	1,992	1,918	1,439
Telephone Calls Answered	227,252	229,773	233,452
Telephone Calls Out	50,421	54,628	55,200
E-Mail In	27,403	31,008	33,298
E-Mail Out	23,810	30,860	32,538
Purchase of Service Applications Processed	8,073	16,404	22,243
Retirements Processed			
• <i>Normal and Early</i>	8,684	11,053	9,863
• <i>Disability</i>	415	458	442

PSERS REGIONAL OFFICES

NORTHWEST
 Suite C, Penn Wood Center
 464 Allegheny Boulevard
 Franklin, PA 16323-6210
 Local (814) 437-9845
 FAX (814) 437-5826
 Toll Free 1-888-773-7748 ext. 5175

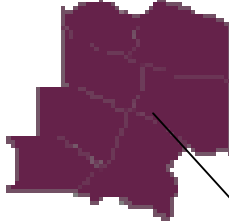
NORTHCENTRAL
 Suite 201
 300 Bellefonte Avenue
 Lock Haven, PA 17745-1903
 Local (570) 893-4410
 FAX (570) 893-4414
 Toll Free 1-888-773-7748 ext. 5275

NORTHEAST
 Suite 201
 417 Lackawanna Avenue
 Scranton, PA 18503-2013
 Local (570) 614-0269
 FAX (570) 614-0278
 Toll Free 1-888-773-7748 ext. 5375



SOUTHWEST
 Suite 208, 900 Sarah Street
 Pittsburgh, PA 15203-1106
 Local (412) 488-2031
 FAX (412) 488-2338
 Toll Free 1-888-773-7748 ext. 5775

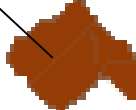
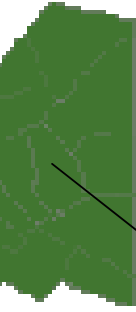
SOUTHEAST
 Suite 500, 605 Louis Drive
 Warminster, PA 18974-2825
 Local (215) 443-3495
 FAX (215) 443-3487
 Toll Free 1-888-773-7748 ext. 5575



CENTRALWEST
 219 West High Street
 Ebensburg, PA 15931-1540
 Local (814) 419-1180
 FAX (814) 419-1189
 Toll Free 1-888-773-7748 ext. 5875

SOUTHCENTRAL
 Suite 101, Three Crossgate Drive
 Mechanicsburg, PA 17050-2459
 Local (717) 795-9270
 FAX (717) 795-9281
 Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST
 Suite 103, 110 West Arch Street
 Fleetwood, PA 19522-1321
 Local (610) 944-9113
 FAX (610) 944-9275
 Toll Free 1-888-773-7748 ext. 5475





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Section 1 - PSERS Overview

PSERS' Member Demographics

Members by Type						
Fiscal Year ending June 30	Active Members	Inactive Members	Annuitants, Beneficiaries, and Survivor Annuitants	Total Active/Retired Members	Ratio of Active/ Retired	Total Inactive, Active & Survivor Annuitants
2010	282,041	111,931	184,934	466,975	1.53 to 1	578,906
2009	279,701	103,805	177,963	457,664	1.57	561,469
2008	272,690	100,803	173,540	446,230	1.57	547,033
2007	264,023	109,186	168,026	432,049	1.57	541,235
2006	263,350	94,071	161,813	425,163	1.62	519,234
2005	255,465	58,720	156,519	411,984	1.63	470,704
2004	247,901	72,014	151,552	399,453	1.63	471,467
2003	246,700	65,453	145,693	392,393	1.69	457,846
2002	242,616	61,295	141,414	384,030	1.71	445,325
2001	243,311	53,979	132,716	376,027	1.83	430,006

Age and Service Profile of Active Members		
	June 30, 2009	June 30, 2010
Average Age	44.6 years	44.5 years
Average Years of PSERS Service	10.6 years	10.5 years
Average Annual Compensation	\$44,779	\$45,344

Profile of PSERS' Annuitants, Beneficiaries, and Survivor Annuitants				
Type of Member	Number of Members		Average Annual Benefit	
	<u>6/30/2009</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2010</u>
Normal/Early Retirees	162,206	168,238	\$23,343	\$24,442
Survivor Annuitants	8,044	8,724	\$9,836	\$10,467
Disability Retirees	<u>7,713</u>	<u>7,972</u>	\$16,948	\$17,091
Total	177,963	184,934	\$22,456	\$23,466

Section 1 - PSERS Overview

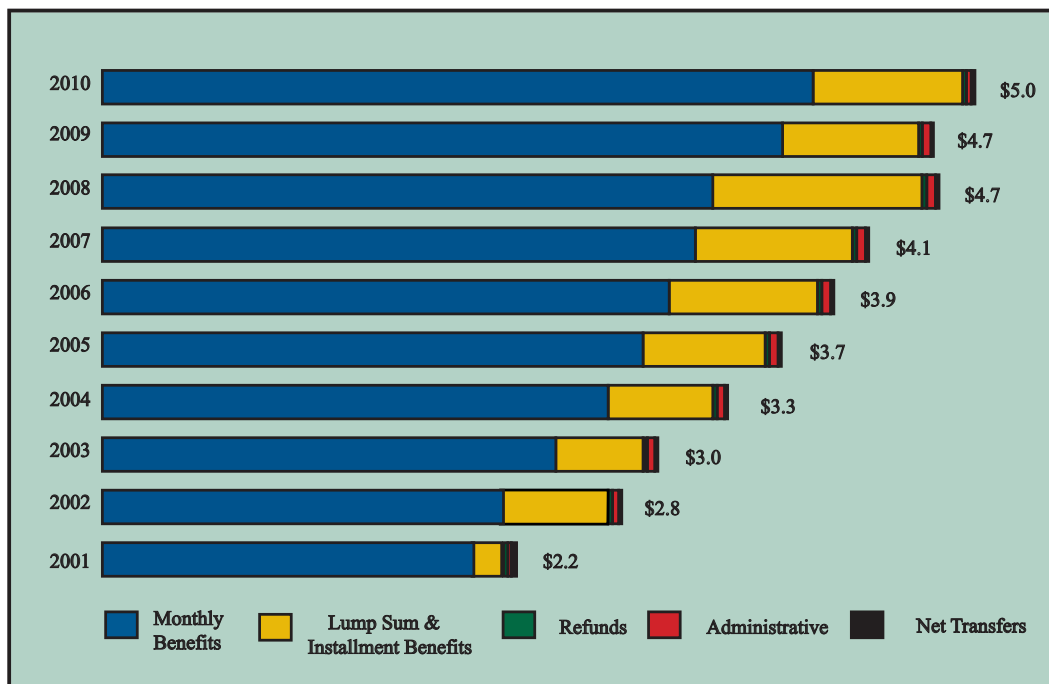
Deductions from Pension Plan Net Assets 10 Year Trend (Dollar Amounts in Thousands)

Fiscal Year ended June 30	-----Benefits-----		Refunds	Administrative*	Net Transfers**	Total Deductions
	Monthly Benefits	Lump- Sum and Installment				
2010	\$4,095,334	\$ 866,888	\$16,720	\$12,105	\$ 7,015	\$4,998,062
2009	3,885,286	754,011	20,369	35,639	7,947	4,703,252
2008	3,623,652	1,012,688	28,713	35,863	17,157	4,718,073
2007	3,189,004	855,431	18,180	35,239	6,010	4,103,864
2006	3,030,297	830,361	16,330	35,391	8,462	3,920,841
2005	2,947,749	692,089	16,233	32,670	10,859	3,699,600
2004	2,692,485	559,939	14,767	40,014	16,315	3,323,520
2003	2,404,697	485,495	13,943	34,293	12,116	2,950,544
2002	2,111,941	595,184	14,858	29,756	9,434	2,761,173
2001	1,914,062	176,228	22,369	31,335	10,867	2,154,861

*Administrative Fund reflects capitalization of intangible assets in FY2010.

**Net transfers to the Commonwealth of Pennsylvania, State Employees Retirement System.

Deductions from Pension Plan Net Assets 10 Year Trend (Dollar Amounts in Billions)



The Actuarial Process and Pension Plan Funding

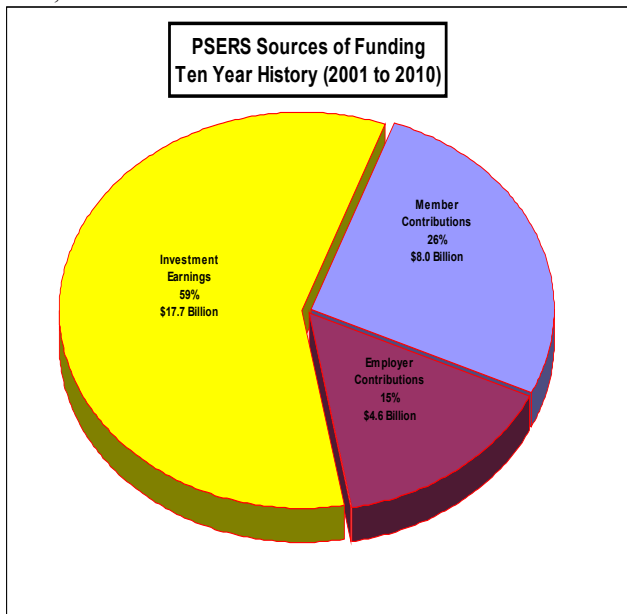
PSERS is a defined benefit plan, meaning benefits are based on members' service and salary history. The following information highlights the actuarial process and funding for PSERS.

Actuarial Process

The actuarial process presumes that there will be a systematic flow of contributions at a specified level to pay for plan benefits and that the flow of contributions, together with investment earnings, will be sufficient to meet all benefit and expense requirements of the plan. Actuarial cost methods for funding PSERS pension plan are defined in the Public School Employees' Retirement Code. The actuary for the pension plan reviews economic and demographic experience annually and over five-year periods. The actuary's periodic valuations test the validity of the underlying actuarial assumptions versus the actual experience of the plan. That experience is also used as a basis for formulating actuarial assumptions, which are essentially highly educated predictions about what will occur in the future with respect to salary growth, investment returns, and demographic factors such as rates of retirement and death. PSERS' primary economic assumptions for FY 2010/2011 project an average annual investment return of 8.00% and an average annual salary increase factor of 6.00%.

Funding

The plan is funded through three sources: (1) employer contributions; (2) member contributions; and, (3) investment earnings. As depicted in the chart below, investment earnings provided 59% of PSERS funding followed by 26% from members. Employers contributed 15%, the smallest of the three sources.



Employer Contributions

The Retirement Code vests the Board with the authority to establish the employer contribution rate. The Board, in consultation with the actuary, establishes the employer contribution rate annually, as part of the annual actuarial valuation. The employer contribution rate, which is expressed as a percentage of payroll, is composed of two items: 1) the pension contribution; and, 2) the contribution for health care premium assistance. As directed by Act 46 of 2010, the total employer contribution rate for the year ended June 30, 2010, was 4.78%, including 0.78% for health care premium assistance. The total employer contribution rate for the fiscal year ending June 30, 2011 is 5.64%, including 0.64% for health care premium assistance. The total employer contribution rate adopted by PSERS' Board of Trustees for the year ending June 30, 2012 is 8.65%, including 0.65% for health care premium assistance. The Board of Trustees certified this rate (that was calculated in accordance with the provisions of Act 120 of 2010) at their December 2010 meeting. This rate consists of an 8.00% pension rate (FY2010/2011 rate of 5.00% plus the Act 120 3.00% collar) plus the health insurance contribution of .65%. The estimated FY2012/2013 employer contribution rate is 12.19% which is based on the June 30, 2010 actuarial valuation. For the fiscal year ended June 30, 2010, PSERS' employer contributions totaled \$638 million, which includes \$103 million for healthcare premium assistance. For the fiscal year ending June 30, 2011 the employer contribution estimate is \$762 million, reflective of the 5.64% contribution rate. The contribution rate for the fiscal year ending June 30, 2012 is 8.65% which results in an employer contribution estimate of \$1.221 billion. A twenty year history of PSERS' employer contribution payments is shown on the following page.

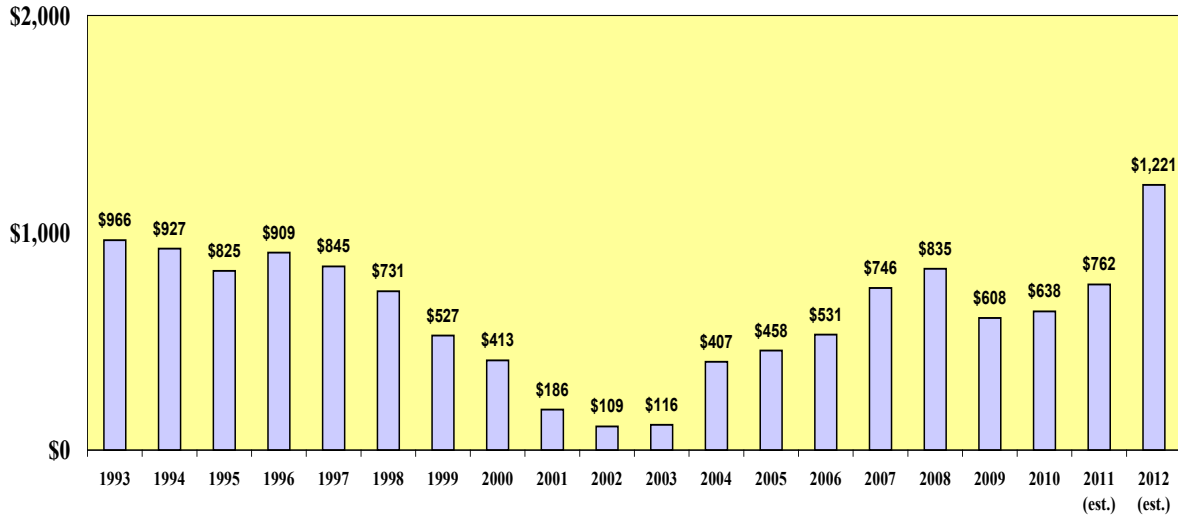
Member Contributions

Members of the Public School Employees' Retirement System who, prior to Act 9 of 2001, contributed to the Retirement Fund at the rate of 6.25% of their gross compensation, began contributing 7.50% in January of 2002, if they elected the higher retirement benefits. Members who contributed at the rate of 5.25% began contributing 6.50% if they elected the higher retirement benefits. The average contribution rate payable by the members is 7.37%.

In accordance with Act 120 of 2010, any employee who becomes a member after June 30, 2011 would become a Class T-E member or, alternatively, elect to become a Class T-F member. The base contribution rate for Class T-E members is 7.50% of compensation. The base contribution rate for Class T-F members is 10.30% of compensation. Class T-E and Class T-F members are subject to a "shared risk" employee contribution rate. The member contribution rate will stay within the specified range allotted for Class T-E or Class T-F, but could increase or decrease every three years starting July 1, 2015 depending on investment performance.

The Actuarial Process and Pension Plan Funding
(continued)

Employer Contribution History
(Dollar amounts in Millions)
Fiscal Year Ending June 30



PSERS members contributed \$952 million for pension contributions for FY2010, compared to \$911 million for FY2009. Total member contributions are estimated to be \$991 million for the year ending June 30, 2011 and \$1.04 billion for the fiscal year ending June 30, 2012. The annual increases are due to a projected increase in member payroll and due to small increases in the member contribution rate each year.

Investment Returns

The investment rate of return (net of fees) for the fiscal years ended June 30, 2010, and June 30, 2009, was 14.59% and -26.54%, respectively. The annualized rates of investment return for the three, five and ten-year periods ended June 30, 2010 were -6.48%, 2.99% and 3.51% respectively. The net asset value of PSERS’ investments was \$46.0 billion as of June 30, 2010. The investment rates of return for the one, three, five and ten-year periods ended December 31, 2010 were 14.23%, -3.45%, 3.87% and 5.18% respectively. Over the past 25 years the fund earned an annualized rate of return of 9.01% which remains above the fund’s current assumed rate of return of 8.00%.

Funded Status

PSERS funded status is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date for both active and retired members.

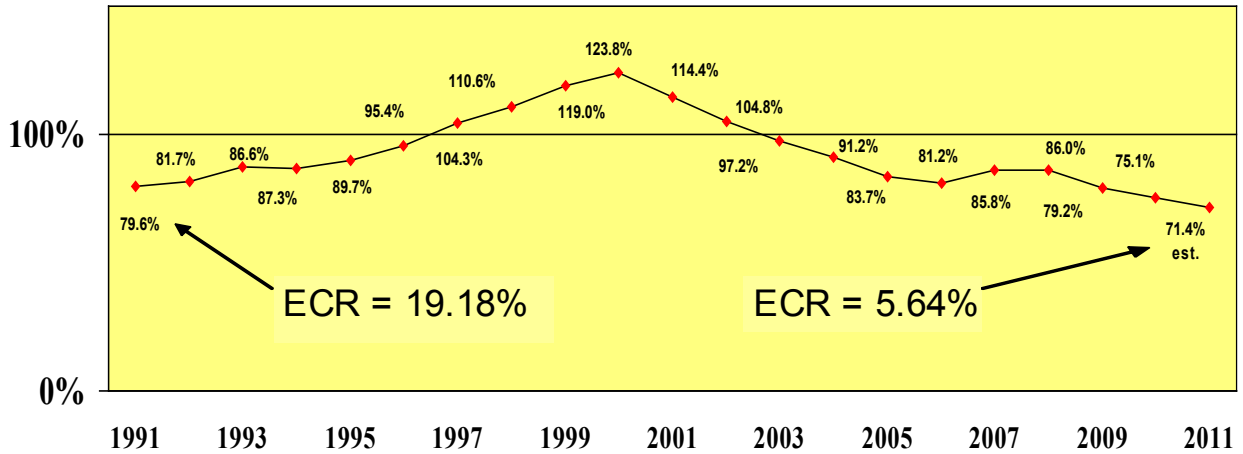
Key Facts

- Funded Status is 75.1% as of June 30, 2010
- Funded Status is 79.2% as of June 30, 2009
- The decrease in FY 2010 is primarily due to the actuarial value of assets loss that occurred during the year as a result of the 10 year asset smoothing used for actuarial evaluation purposes. There was also a net actuarial experience loss.
- The decrease in the funded status since 2000 is the result of several factors including: the unfavorable investment markets from FY 2001 to FY 2003 and FY 2008 to FY 2009; funding changes enacted in Act 38 of 2002 and Act 40 of 2003; and actuarial liability losses.
- A twenty-year history of PSERS’ funded status is shown on the following page.

The Actuarial Process and Pension Plan Funding (continued)

PSERS Funded Ratio

Funded Ratio = Actuarial Value of Assets/Actuarial Accrued Liability
Fiscal Year Ending June 30



Until the June 30, 2009 actuarial valuation, PSERS' funded ratio had not been below 80% since June 30, 1991. The employer contribution rate was 19.18 % in 1991. PSERS current employer contribution rate is 5.64%.



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Employer Contribution Rate

PSERS undergoes an annual independent actuarial valuation to calculate the actuarial assets and liabilities of the pension fund. Based on the actuarial valuation process, the actuary develops the recommended Employer Contribution Rate (ECR) that determines the employer contributions to the pension plan and premium assistance. The valuation process also measures the progress of the pension system towards funding pensions for its active and retired members.

Employer Contribution Rate Statistics

- Highest historical ECR (1985/1986) 20.04%
- Lowest historical ECR (2001/2002) 1.09%
- Ten year average ECR (2002 to 2011) 5.13%
- Twenty year average ECR (1992 to 2011) 6.72%
- Thirty year average ECR (1982 to 2011) 10.65%
- Adopted ECR (2011/2012) 8.65%

PSERS' average member rate, employer contribution rate and normal cost for thirty years is presented in the graph on the bottom of the page.

Act 120 of 2010

Progress on Funding Issue

On November 23, 2010 Act 120 of 2010, a pension reform bill, was signed into law. This legislation significantly changed the benefit structure for new PSERS members and makes great strides towards resolving the funding issues facing PSERS.

Benefit Changes Summary

The benefit reductions contained in this legislation only impact individuals who become new members of PSERS

on or after July 1, 2011. Any existing or former members of PSERS who return to service on or after July 1, 2011 will retain their old membership status. The current pension benefit that a PSERS retiree receives is not impacted by the legislation.

Impact on Current Members of PSERS

- Once a member qualifies for membership all service earned as a member after the initial qualification will be considered qualified. Previously members had to qualify each year (500 hours or 80 days for hourly and per diem employees).
- Creates a three-year window beginning July 1, 2011 for current active members to file an application to purchase Non-Qualifying Part-Time service (NQPT). Current members who are inactive but return to active service after July 1, 2011, will have a one-year window to purchase NQPT service.

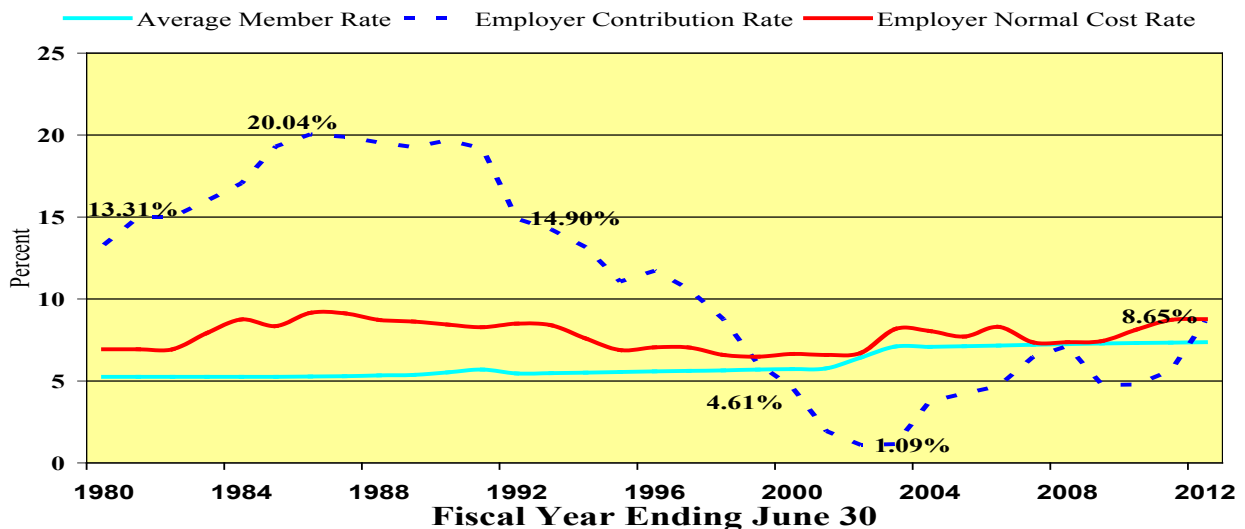
Impact of Benefit Cuts for New Members on or after July 1, 2011

For school employees who become new members of PSERS on or after July 1, 2011, there are two new classes; Class T-E and T-F. All new members will automatically become Class T-E members. New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever. In other words, once the election is made either by action or inaction, the election is permanent.

Class T-E

- Pension multiplier is 2%
- Effective July 1, 2011 employee contribution base rate is 7.5% (base rate) with "shared risk" contribution levels between 7.5% and 9.5%

PSERS' Contribution Rates as a Percent of Payroll



Employer Contribution Rate

(continued)

Class T-F

- Pension multiplier is 2.5%
- Effective July 1, 2011 employee contribution base rate is 10.3% (base rate) with “shared risk” contribution levels between 10.3% and 12.3%

Class T-E and T-F Members

- Cannot withdraw member contributions and interest in a lump sum when retiring
- Have a ten year vesting period
- For normal retirement, employees must work until age 65 with minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service
- One year window for new members to apply for NQPT service
- Once qualified for membership, all service earned thereafter while a member is qualifying
- Pension benefit cannot exceed the member’s final average salary
- The cost to purchase most types of nonschool or nonstate service credit (other than intervening military service) will be the full actuarial cost of the service
- New employees starting later than July 1, 2011 will contribute based on “shared risk” rate in effect at date of hire

Shared Risk

With a “shared risk” program, Class T-E and T-F members benefit when investments of the fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E or T-F but could increase or decrease every three years starting July 1, 2015, dependent on investment performance of PSERS. The member contribution rate can never go below the base rate of 7.5% for T-E and 10.3% for T-F members, nor above 9.5% for T-E and 12.3% for T-F members.

If the investment rate of return (less investment fees) is equal to or exceeds the assumed rate of return (based on the prior ten-year period), the member contribution rate will decrease by .5%. Likewise, the member contribution rate would increase by .5% if the earnings during the ten-year period are 1.0% or more below the assumed rate of return. If the System is fully funded at the time of the comparison, then member contribution rates revert back to the base rate for the Class until a full 10 year look back period is available. The investment return measurement return period will begin on July 1, 2011.

Funding/Actuarial Changes Summary**Funding Changes - Employer Contributions**

The legislation also suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast for budgetary purposes.

The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year’s rate as follows:

- FY 2011/12 - not more than 3.0% plus the premium assistance contribution rate
- FY 2012/13 - not more than 3.5% plus the premium assistance contribution rate
- FY 2013/14 - not more than 4.5% plus the premium assistance contribution rate
- Thereafter - not more than 4.5%

The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time.

After that, the rate is what is calculated by PSERS actuary and approved by the PSERS Board, subject to a new rate floor or minimum employer contribution rate that will be the employer normal cost (currently about 8%), plus the premium assistance contribution rate. The “employer normal cost” is the amount needed from the school employers to fund the benefits earned by the active members for that year.

Actuarial Changes

- Currently liabilities are funded over various periods of time using level dollar amortization. Act 120 re-amortizes all unfunded liabilities over a 24 year period and uses level percentage of pay amortization.
 - Level percentage of pay amortization is calculated using the same percentage of compensation each year during the amortization period. Under the level dollar amortization, the annual dollar amount of the payment remains the same each year.
- Act 120 changes the recognition of investment gains and losses from a 5 year smoothing period to a 10 year smoothing period.
- Any future legislation enacted that adds liabilities to the system (i.e. cost-of-living adjustments, “30 and Out”) will be amortized over 10 years, using a level percentage of pay method. The cost of any additional accrued liability must be reflected above the employer contribution rate caps.
- Establishes a prohibition on the use of Pension Obligation Bonds to fund the System.

Employer Contribution Rate

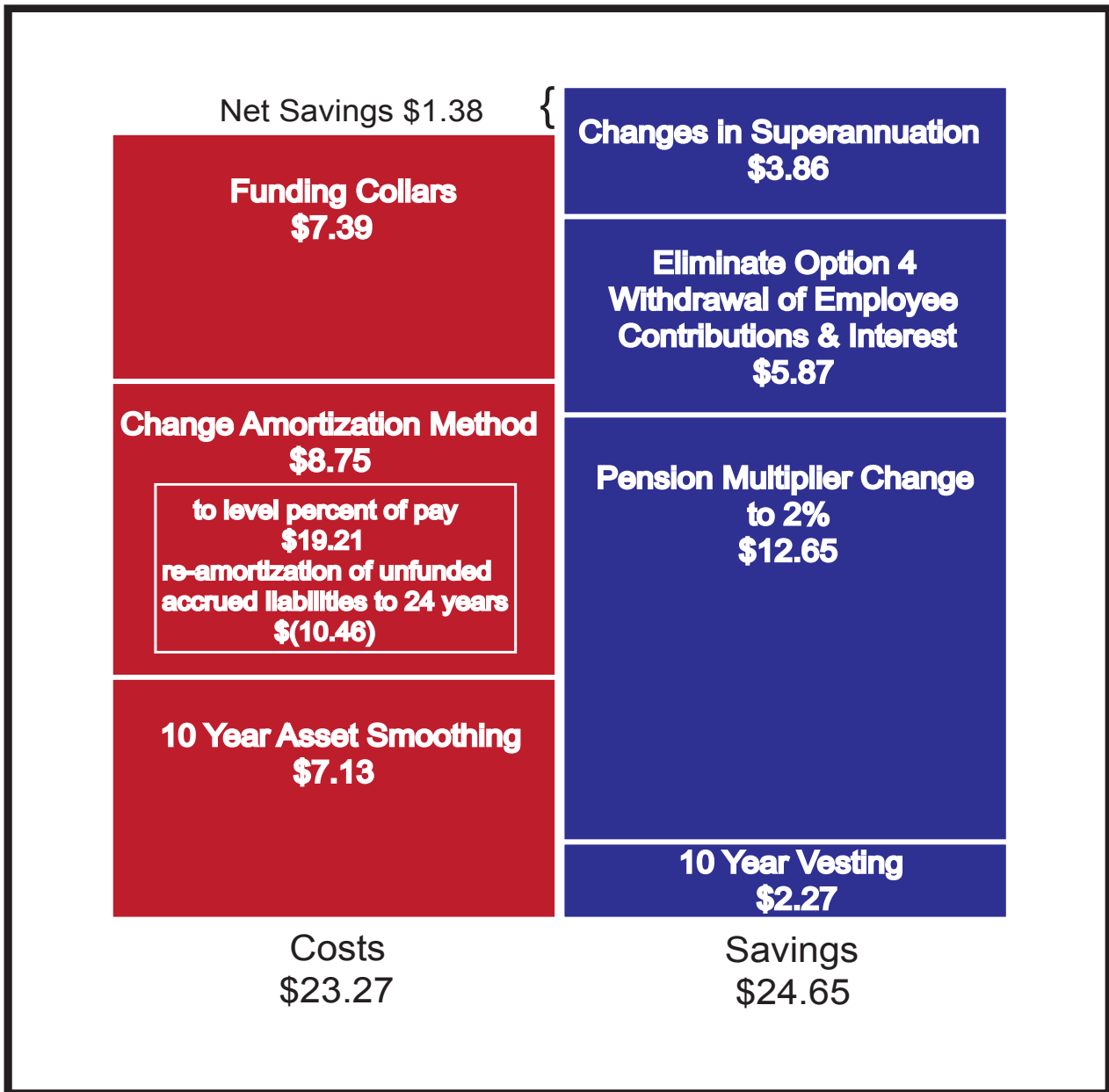
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Act 120 Costs and Savings

As depicted by the chart on this page, Act 120 has a projected net savings of \$1.38 billion. Act 120 benefit

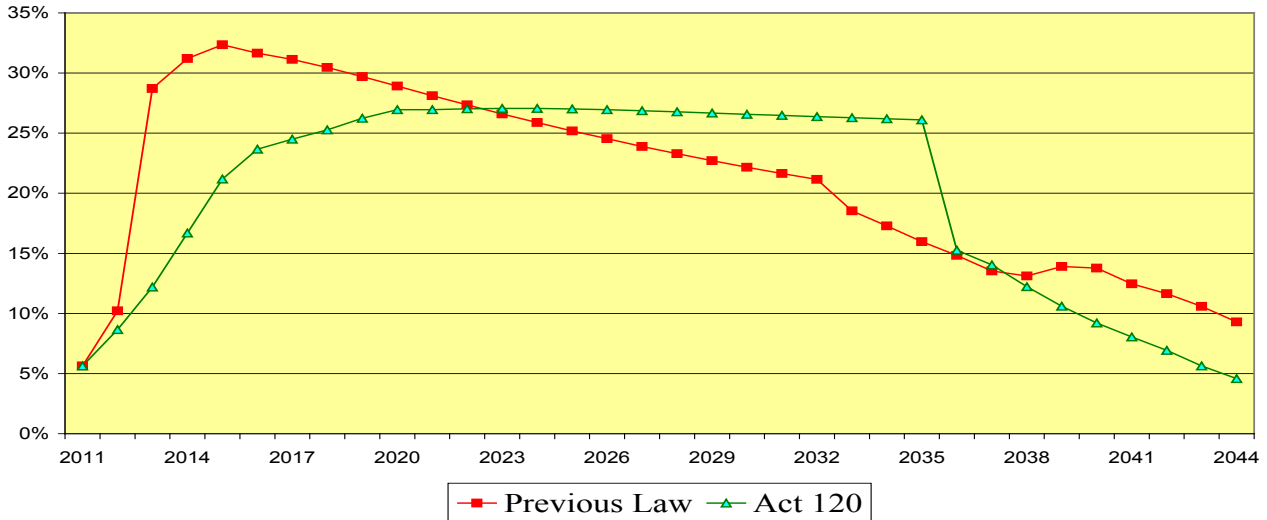
reductions are projected to save \$24.65 billion through FY 2043/2044. The cost savings from benefit reductions are offset by Act 120 funding and actuarial changes. Those changes defer contributions for budgetary purposes and are projected to cost \$23.27 billion through FY 2043/2044.

**Act 120 of 2010
Costs and Savings Compared to Prior Law
Projected to FY 2043/2044
(\$ in billions)**



Employer Contribution Rate
(continued)

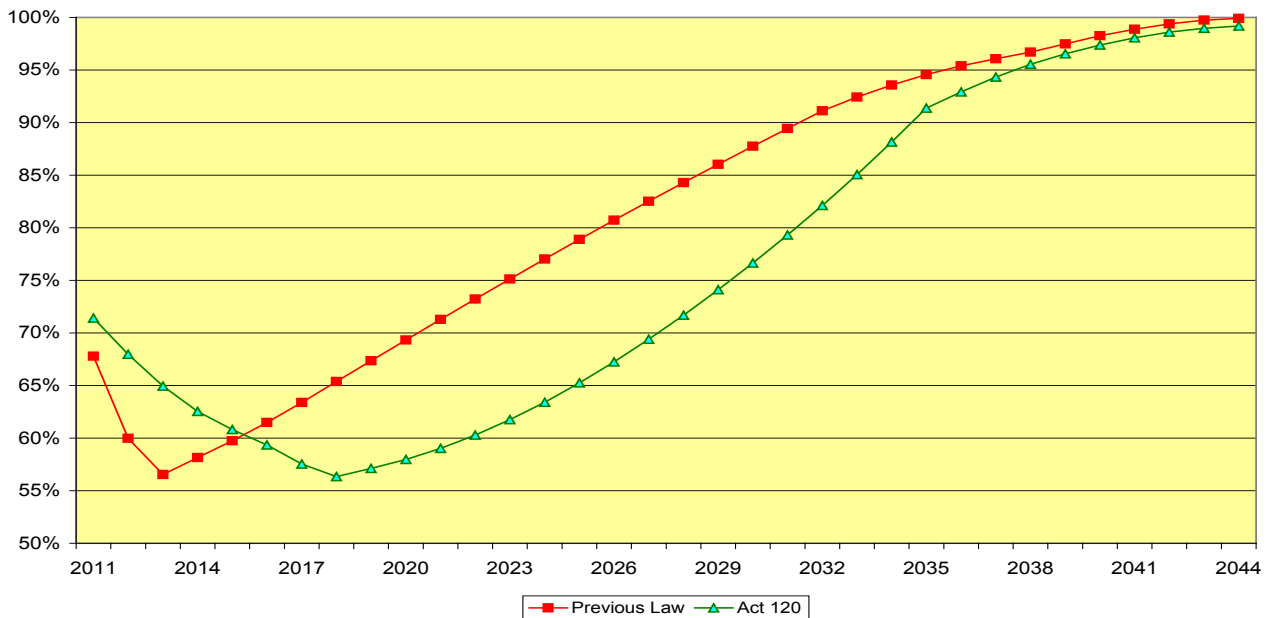
**PSERS' Projection of Total Employer Contribution Rate
Act 120 vs. Previous Law
(As Percentage of Payroll)**



The chart at the top of the page shows PSERS' projections of total employer contribution rate under Act 120 compared to previous law. As depicted in the chart, Act 120 smooths the rate spike under previous law over five to nine years. The rate spike under previous law was budgetarily prohibitive for the Commonwealth and school employers. Although the contribution levels are still significant, Act 120 gives the Commonwealth and school employers five to nine

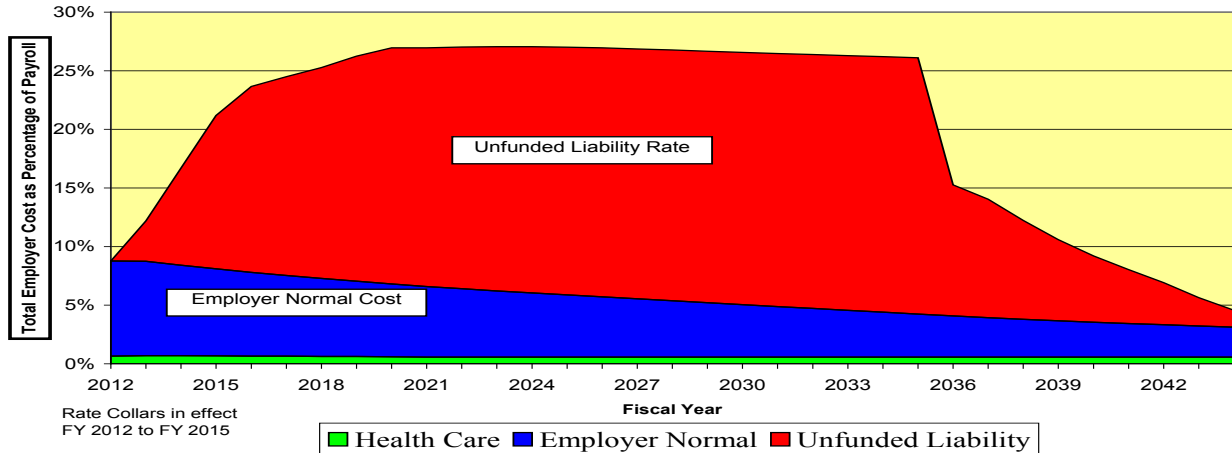
years to gradually absorb the necessary funding increases required to adequately fund PSERS. The chart at the bottom of the page shows PSERS' funded ratio projections under Act 120 compared to previous law. Due to the collars under Act 120, PSERS' funded ratio is projected to drop below 60% by 2018 before starting to rise again.

**PSERS Projection of Funded Ratio
Act 120 vs. Previous Law**



Employer Contribution Rate
(continued)

PSERS
Components of Projected Total Employer Contribution Rate - Act 120
Based on June 30, 2010 Actuarial Valuation - Assumes 8% Rate of Return



Act 120 Employer Costs

The cost structure of PSERS’ new members under Act 120 is low and the shared risk provisions shift a portion of the investment risk to active members. The chart at the top of the page shows the components of the projected total employer contribution rate with unfunded liability, employer normal cost, and health care premium assistance. Essentially, Act 120 provides the members with a defined benefit plan, which is both adequate and secure and provides the employers with a low cost employee benefit funded primarily by the members who have also assumed some of the investment risk. As the chart depicts, the employer normal cost decreases over time as Act 120 members replace retiring pre-Act 120 members. The employer normal cost of Act 120 members is 68% less than pre-Act 120 members. This represents a significant cost reduction for the employers.

Regardless of the benefit structure going forward, as depicted in the chart at the top of the page, the unfunded liability accumulated for service already rendered by active members is significant and represents a much larger cost to employers than the projected normal cost for existing and Act 120 members over the next 25 years.

Act 120 Budgetary Deferral

As indicated previously, the funding and actuarial provisions of Act 120 have provided the Commonwealth and school employers a five to nine year period to appropriate funds for PSERS’ unfunded liability. Act 120 is projected to defer \$8.7 billion in employer contributions in the next five years alone as seen in the following table.

Comparison of Employer Retirement Contributions						
Previous Law Vs. Act 120 of 2010						
Fiscal Year	Appropriation	Previous Law	Act 120		(55%)	(45%)
Ending	Payroll	Employer	Employer	Amount	State Share	School Share
June 30	(in thousands)	Contributions	Contributions	Deferred	of Deferral	of Deferral
		(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2012	\$ 14,112,000	\$ 1,497,283	\$ 1,220,688	\$ 276,595	\$ 152,127	\$ 124,468
2013	\$ 14,565,146	\$ 4,296,718	\$ 1,775,491	\$ 2,251,227	\$ 1,386,675	\$ 1,134,552
2014	\$ 15,031,927	\$ 4,865,835	\$ 2,508,829	\$ 2,357,006	\$ 1,296,353	\$ 1,060,653
2015	\$ 15,528,583	\$ 5,264,190	\$ 3,208,954	\$ 1,975,236	\$ 1,086,380	\$ 888,856
2016	\$ 16,058,316	\$ 5,390,777	\$ 3,799,398	\$ 1,591,379	\$ 875,259	\$ 716,121
Cumulative 5 Year Total Savings				\$ 8,721,443	\$ 4,796,794	\$ 3,924,649

Employer Contribution Rate (continued)

Schedule of Employer Contributions			
<u>Year ended June 30</u>	<u>Annual Required Contributions</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>
2010	\$ 1,928,278	\$ 527,212*	27%
2009	\$ 1,761,295	\$ 503,227*	29%
2008	\$ 1,852,238	\$ 753,532	41%
2007	\$ 1,708,821	\$ 659,545	39%
2006	\$ 1,328,373	\$ 456,878	34%
2005	\$ 945,107	\$ 431,556	46%

* Net of purchase of service contributions.

National Developments

New Jersey Bond Rating Downgrade

The effects of soaring pension costs have strained the resources and now the credit rating of Pennsylvania’s neighbor state New Jersey, and due to their under funded pension and health-benefit obligations, Standard & Poor’s has downgraded New Jersey’s bond rating from AA to AA – the fourth-highest level. In the past 12 months, New Jersey has agreed to pension and benefit reductions for newly hired employees and is looking at raising the retirement age for state workers and teachers, rolling back benefits granted from a decade ago, eliminating cost-of-living increases to retirees’ pensions, and forcing employees to contribute a greater percentage of their wages toward their pensions.

Even with the proposed benefit reforms, Moody’s Investor Service has indicated that the New Jersey pension funding levels will continue to deteriorate. A February 28, 2011 article in the Wall Street Journal called the New Jersey pension outlook bleak.

Moody’s Report “Combining Debt and Pension Liabilities”

In the past, Moody’s Investor Service examined tax-supported bonds separately from unfunded pension liabilities. Moody’s report, “Combining Debt and Pension Liabilities of U.S. States Enhances Comparability,” uses a new methodology to evaluate the leverage position of state governments. The report notes that “pension funding pressures will continue to have a negative impact on state credit quality and state rankings.”

Illinois Pension Obligation Bonds Issued

In February 2011, the state of Illinois sold \$3.7 billion of pension obligation bonds to fund its 2011 Annual Required

Contributions to its pension plans. Due to Illinois’ bond rating and significantly under funded pensions, the bonds require a “hefty yield”, as quoted from the Wall Street Journal, to entice investors to purchase the bonds over bonds of more financially sound states. The added yield will cost Illinois hundreds of millions of dollars in added interest over the five-year bond maturity.

PSERS Annual Required Contributions

The schedule of employer contributions at the top of the page shows historical trend information about the Annual Required Contribution (ARC) for pensions, and the percentage of the ARC contributed to the pension system. In a report prepared by the PEW Center on the States, Pennsylvania ranks next to last (only New Jersey is lower), when comparing the five-year average of actuarially required contributions.

As noted above, the national landscape is changing and the under funding of state pension plans is proving to be costly to New Jersey, Illinois, and other states. As the table at the top of the page shows, the Commonwealth and school employers have not made the required annual payments to PSERS for at least the past five years. Taxpayers, as a result, have benefited significantly for at least the past five years from pension payment deferrals. Pennsylvania must continue to increase its contributions to PSERS as provided in Act 120, or the problems currently facing New Jersey, Illinois, and other states could be Pennsylvania’s issues in a few years. The Governor’s Budget fully funds the Commonwealth’s portion of the employer contribution rate of 8.65% for FY2011/2012 in compliance with Act 120.

**Employer Contribution Rate
(continued)**

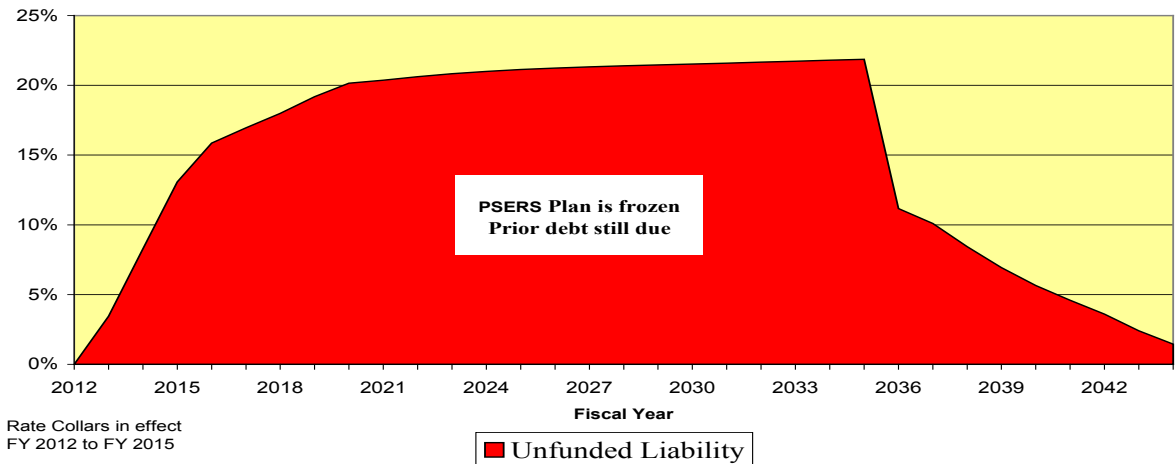
Next Steps

As noted, the Commonwealth and School employers have benefited over the past five years and longer due to PSERS' very low ARC. Illinois, New Jersey and other states are currently dealing with the repercussions of under funding their pension plans. Act 120 has significantly reduced the employer's normal cost for future new members via benefit reductions to new members, but a significant unfunded liability for service already rendered by active members still remains to be paid. As the chart at the bottom of the page shows, even if PSERS is closed to new members and

the benefits are not replaced with another type of pension plan, the employer contribution rate to pay the unfunded liability still peaks at over 20% of payroll and remains there for over a decade. Act 120 has also provided both the Commonwealth and the School employers with a five to nine year time horizon to gradually increase contributions to PSERS in a more budgetary feasible manner than the rate spike under previous law. The process now becomes an appropriation challenge to meet the gradual funding increases provided for in Act 120.

As in the past, PSERS remains committed to providing all available assistance to the Governor, General Assembly and School employers to address the appropriation challenges.

**PSERS
Projected Employer Contribution Rate - DB plan is frozen,
no future benefits offered Based on June 30, 2010 Actuarial Valuation -
Assumes 8% Rate of Return**





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Section 1 - PSERS Overview

Consultants' Fees (\$50,000 and Over)

The following benefit, investment, information technology and financial professional service firms were under contract to provide services to PSERS during the fiscal year ended June 30, 2010.

<u>Firm</u>	<u>Services Provided</u>	<u>Consultant Fee</u>
CoreSource, Inc.	Postemployment healthcare benefits administration and claims adjudication	\$ 11,018,949 *
ViTech Systems Group, Inc.	Pension administration system services	\$ 3,582,055 *
Rx Solutions, Inc.	Administration of postemployment healthcare benefits' prescription drug plan	\$ 2,816,847 *
The Segal Company	Actuarial services and consulting for the Health Options Program and prescription drug plan	\$ 2,467,835 *
Portfolio Advisors, LLC	Private market consulting	\$ 1,500,000
Buck Consultants LLC	Pension benefit actuarial services	\$ 716,018 *
Financial Control Systems, Inc.	Investment accounting application service provider	\$ 669,000
Wilshire Associates	General investment consulting	\$ 486,000
Independent Pharmaceutical Consultants, Inc.	Pharmacy benefit consulting services	\$ 378,275 *
Courtland Partners, Ltd.	Real estate investment consulting	\$ 230,000
Glass Lewis & Company	Proxy voting	\$ 217,000
Clifton Gunderson LLP	Financial audit of pension system and postemployment healthcare programs	\$ 114,755 *

* Amounts as reported in PSERS' Comprehensive Annual Financial Report.



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Legislation Information

Legislative Bills of Interest to PSERS Enacted during the Year 2010.

Senate Bill 928, P.N. 1923 – (Sen. Stack)

Sudan/Iran Divestiture – requires the divestment of certain holdings of companies doing business in Sudan & Iran.

Enacted by signature of the Governor July 2, 2010

ACT 2010 - 44

Senate Bill 1042, P.N. 2141 – (Sen. Browne)

Fiscal Code: authorized \$121,000,000 transfer from Tobacco Settlement Fund.

Also, required PSERS Board of Trustees to recertify the ECR downward to 5.64%.

Enacted by signature of the Governor July 6, 2010.

ACT 2010 – 46

House Bill 2279, P.N. 4032 – (Rep. D. Evans)

General Fund Budget Bill: authorized \$287,562,000 line item in Department of Education budget.

Enacted by signature of the Governor July 6, 2010.

ACT 2010 – 1A

House Bill 2283, P.N. 3263 – (Rep. D. Evans)

PSERS Administrative Budget – **\$43,528,000**

Enacted by signature of the Governor July 6, 2010

ACT 2010 – 5A

House Bill 2497, P.N. 4476 – (Rep. D. Evans) Amended both SERS & PSERS Codes.

Pension Reform Proposal – The provisions adopted under Act 120 significantly changed the benefit structure available to new members of PSERS, and instituted actuarial and funding method changes in addressing the long-term funding issues facing PSERS.

Enacted by signature of the Governor November 23, 2010.

ACT 2010 – 120

Commonwealth Portion of PSERS Employer Contribution Rate

Total Employer Contribution Rate (ECR) re-set at 5.64% = \$761,964,000

Projected Commonwealth portion of ECR = \$408 million

{Initial ECR set by PSERS Board of Trustees at 8.22% = \$1,110,522,000}

{Projected Commonwealth portion of ECR at 8.22% = \$534 million}



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Section 2 - Budget Request





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Section 2 - Budget Request

Public School Employees' Retirement System Fiscal Year 2011/2012 Budget Request			
	<u>Actual</u> <u>2009/2010</u>	<u>Available</u> <u>2010/2011</u>	<u>Request</u> <u>2011/2012</u>
Total Personnel Expenses	\$ 23,497,092	\$ 25,674,996	\$ 26,290,000
<u>Budgetary Reserve</u>	575,400	-	
<u>Operating Expenses</u>			
Travel	\$ 101,452	\$ 212,004	\$ 205,000
Training	87,414	133,000	131,000
Telecommunication	603,805	672,000	670,000
Electricity	44,985	60,000	60,000
Consultant Services - Non EDP	785,324	927,000	870,000
Consultant Services - EDP	-	-	15,000
Legal Services/Fees	30,281	106,000	16,000
Specialized Services (Interagency)	361,811	443,000	439,000
Specialized Services (Vendor)	41,911	344,000	539,000
Advertising	1,871	10,000	10,000
Medical, Mental, & Dental Services	1,180	2,000	2,000
EDP Contract Service (Vendor)	6,106,151	6,677,000	6,147,000
Contracted Maint Services - EDP	81,537	118,000	85,000
Contracted Maint Services - Non EDP	201,484	228,000	238,000
Contracted Repairs - Non EDP	4,720	44,000	35,000
EDP Rental (Equip and Software)	797,856	932,000	946,000
Real Estate Rental	1,900,728	1,979,000	1,980,000
Vehicle Rental	2,369	4,000	4,000
Other Equip Rentals	280,049	291,000	300,000
Office Supplies	217,882	339,000	335,000
Educational Supplies	15,647	16,000	21,000
Medical Supplies	2,418	-	1,000
EDP Software	263,494	100,000	135,000
Other Computer Equipment	170,068	83,000	85,000
Furniture & Fixtures	30,555	51,000	51,000
Other Equipment & Supplies	41,454	45,000	72,000
Postage	1,039,917	1,478,000	1,450,000
Freight Charges	6,618	15,000	15,000
Printing	384,200	492,000	470,000
Subscriptions	34,982	62,000	40,000
Memberships	30,309	37,000	42,000
Conference Expense	32,030	80,000	75,000
Insurance	21,211	23,000	24,000
Other Operational Expenses	<u>1,395,712</u>	<u>1,680,000</u>	<u>1,611,000</u>
Total Operating Expenses	\$ 15,121,425	\$ 17,683,004	\$ 17,119,000

Section 2 - Budget Request

Public School Employee Retirement System Fiscal Year 2011/2012 Budget (continued)

	<u>Actual</u> <u>2009/2010</u>	<u>Available</u> <u>2010/2011</u>	<u>Request</u> <u>2011/2012</u>
Fixed Assets			
Automobiles	\$ -	\$ 75,000	\$ 50,000
EDP Computers & Peripherals	575,977	40,000	-
Office Equipment	99,685	30,000	-
Telecommunications Equipment	<u>44,759</u>	<u>25,000</u>	<u>648,000</u>
Total Fixed Assets	\$ 720,421	\$ 170,000	\$ 698,000
Total Administrative Budget	\$ 39,338,937	\$ 43,528,000	\$ 44,107,000
Personnel Augmentations	840,377	916,000	950,000
Total with Augmentations	\$ 40,179,314	\$ 44,444,000	\$ 45,057,000



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**Directed Commissions Recapture Program
(Dollar Amounts in Thousands)
(unaudited)**

Directed Commissions Recapture is a program whereby a portion of commissions incurred by PSERS through investment trading activity is returned to PSERS. These funds, which are held in a restricted revenue account at Treasury, can be used for the administration of the Fund or can be reinvested back into the asset allocation through a transfer to the PSERS Retirement Account. Expenditures paid from the Directed Commissions Recapture Program Budget have the same approval process as any other expenditure made by the Fund.

Note: Beginning with the 2008-2009 fiscal year – Investment Information Services have been included as part of the Investment Related Expense Appropriation 5003300000.

Directed Commissions Recapture Program - Directed Commissions Apropriation #6012700000			
	Actual Expenditures	Available	Budget Request
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Budgetary Reserve	<u>0</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>
Total	<u>0</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>



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Section 3 - Investment Information





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Investment Policy

The Public School Employees' Retirement Board of Trustees (the Board) is responsible for, among other things, the formulation of an Investment Policy (the Policy) for the Public School Employees' Retirement System (the System). As articulated in the Public School Employees' Retirement Code 24 Pa. C.S. §8521(a), the Board and PSERS' Staff delegated with investment authority must act in a manner consistent with the Prudent Investor Standard, which requires "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital." The Prudent Investor Standard recognizes modern portfolio theory and guides investment and management decisions respecting individual assets so that the trade-offs between risk and return for each asset are considered in the context of an overall investment strategy.

The System's Investment Policy, which is available at www.psers.state.pa.us, reflects the many implications of the Prudent Investor Standard. The Board reviews the Policy at least annually, and may make more frequent changes as necessary. The Policy establishes clear criteria for the management of the assets by or on behalf of the Board. For example:

- The Board, PSERS' staff, investment consultants, and investment managers are assigned appropriate responsibilities and made to clearly understand the objectives and policies of the Board and the System;
- Allocation plans are prepared to guide the investment of the System's assets;
- Guidelines are established for each investment category so that asset quality, diversification, and return can be monitored;
- Investment managers are given guidance and limitations on the investment of the System's assets; and,
- The Board has created a meaningful basis for evaluating the investment performance of individual investment managers, as well as for evaluating overall success in meeting its objectives.

General Investment Objectives

The System seeks to provide benefits to its members through a carefully planned and well-executed investment program. The overall investment objective of the Board is to provide adequate funding for member benefits. Realization of this overall return objective would be sufficient to achieve funding adequacy (defined as when the actuarial market value of assets is at least equal to the System's projected benefit obligations) on an inflation-adjusted basis. The Policy also identifies the following general investment objectives and constraints:

Return Objectives

- The System has an overall return objective of meeting or exceeding the actuarial rate (currently 8.0%) over the long term;
- The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
- The System shall strive to achieve a return that exceeds the Policy Index. The Policy Index, which is based on the board-established asset allocation structure, is a custom benchmark designed to generate a return that meets the actuarial rate of return assumption.

Risk Objectives

- The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and,
- The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 15% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

Constraints

- The System shall maintain adequate liquidity to meet required benefit payments to the System's beneficiaries;
- The System's assets shall be invested in a manner that is consistent with the System's long-term investment horizon; and,
- As a tax-exempt investor, the System's assets may be invested without distinction between returns generated from income and returns generated from capital gains.

Section 3 - Investment Information

Investment Performance Net of Fees (for the period ended June 30, 2010) Annualized Total Returns(%)

Asset Class	One Year	Three Year	Five Year	Ten Year
<i>PSERS U.S. Equities</i>	18.29	-10.36	-1.03	0.19
Domestic Equity Policy Index (1)	15.20	-9.52	-0.39	-0.83
<i>PSERS Non-U.S. Equities</i>	15.07	-8.22	5.84	3.58
International Equity Policy Index (2)	11.49	-9.45	4.20	2.47
<i>PSERS U.S. Fixed Income</i>	21.43	9.01	6.53	7.45
Domestic Fixed Income Policy Index (3)	16.97	10.24	6.96	7.25
<i>PSERS Global Fixed Income</i>	14.43	8.33	6.12	7.22
Global Fixed Income Policy Index (4)	4.89	6.52	4.88	6.26
<i>PSERS Commodities</i>	5.93	-7.81	<i>N/A</i>	<i>N/A</i>
DJ UBS Commodity Index	2.75	-8.36	N/A	N/A
<i>PSERS Real Estate (5)</i>	-10.30	-21.31	-2.62	5.75
Blended Real Estate Index (6)	-3.64	-5.29	3.96	7.77
<i>PSERS Private Markets (5)</i>	22.39	1.99	12.05	7.00
Venture Economics Median Return, Vintage Year Weighted	12.85	1.39	5.78	2.53
<i>PSERS Absolute Return (7)</i>	15.60	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Absolute Return of 8.0% annualized	8.00	N/A	N/A	N/A
<i>PSERS Cash (8)</i>	0.33	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Merrill Lynch U.S. Treasury Bill 0 – 3 Months Index	0.11	N/A	N/A	N/A
<i>Total Fund (9)</i>	14.59	-6.48	2.99	3.51
Policy Index	10.87	-4.77	2.75	2.60

(1) MSCI U.S. Investable Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.

(2) MSCI All Country World (ACW) ex. US Investable Market Index effective July 1, 2008; previously was the MSCI ACW ex. U.S. Index. The benchmark was 30% hedged to the U.S. dollar from July 1, 2006 to March 31, 2009; otherwise, the benchmark was unhedged.

(3) Returns presented are a blend of the Barclays Capital U.S. Universal Index (27.8%), Barclays Capital U.S. TIPS Index (Series - L) (27.8%), and Barclays U.S. High Yield Index (44.4%) effective April 1, 2009. The weights to these indexes have varied in previous quarters. Prior to April 1, 2007, the Barclays Capital Aggregate Bond Index was used in place of the Barclays Capital U.S. Universal Index.

(4) Returns presented are a blend of the Barclays Multiverse Index (40.8%) and the JP Morgan Global Bond Index Emerging Markets Global Diversified (USD Unhedged) Index (59.2%). Between April 1, 2007 and March 31, 2010, the Barclays Multiverse Index was used; previous to April 1, 2007, the Barclays Global Aggregate Bond Index was used.

(5) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.

(6) Returns presented are a blend of the net value-weighted National Council of Real Estate Investment Fiduciaries(NCREIF)/Townsend Fund Index (NIFI) sub-indicies (Open-End Diversified Core Equity, Closed-End Value Added, and All Opportunistic, as of April 1, 2010. Previously, a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index was used, and prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

(7) Absolute Return started April 1, 2009.

(8) Cash started November 1, 2008.

(9) Over the past 25 years ended June 30, 2010, the Fund earned an annualized rate of return of 8.83 percent which remains above the Fund's current assumed actuarial rate of return of 8.0 percent.

Section 3 - Investment Information

Investment Performance Net of Fees (for the period ended December 31, 2010)

Annualized Total Returns(%)

Asset Class	One Year	Three Year	Five Year	Ten Year
PSERS U.S. Equities	18.36	-2.48	2.18	2.76
Domestic Equity Policy Index (1)	16.52	-2.12	2.77	2.44
PSERS Non-U.S. Equities	16.00	-1.66	7.15	7.31
International Equity Policy Index (2)	12.73	-3.00	5.77	6.22
PSERS U.S. Fixed Income	14.57	8.98	7.67	7.44
Domestic Fixed Income Policy Index (3)	10.45	9.89	8.12	7.06
PSERS Global Fixed Income	10.41	8.52	8.06	7.74
Global Fixed Income Policy Index (4)	8.06	6.60	7.12	6.97
PSERS Commodities	18.13	-3.16	N/A	N/A
DJ UBS Commodity Index	16.83	-3.67	N/A	N/A
PSERS Real Estate (5)	3.42	-20.14	-3.94	5.68
Blended Real Estate Index (6)	7.62	-4.19	3.72	7.98
PSERS Alternatives Index (5)	15.58	0.36	11.53	7.85
Venture Economics Median Return, Vintage Year Weighted	11.78	1.49	5.84	3.21
PSERS Absolute Return (7)	16.34	N/A	N/A	N/A
Absolute Return of 8.0% annualized	8.00	N/A	N/A	N/A
PSERS Cash (8)	0.31	N/A	N/A	N/A
Merrill Lynch U.S. Treasury Bill 0 - 3 Months Index	0.12	N/A	N/A	N/A
Total Fund (9)	14.23	-3.45	3.87	5.18
Policy Index	11.27	-1.99	3.71	4.34

(1) MSCI U.S. Broad Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.

(2) MSCI All Country World ex. U.S. Investable Market Index effective July 1, 2008; previously was the MSCI ACW ex. U.S. Index. The benchmark was 30% hedged to the U.S. dollar from July 1, 2006 to March 31, 2009; otherwise, the benchmark was unhedged.

(3) Returns presented are a blend of the Barclays Capital U.S. Universal Index (27.8%), Barclays Capital U.S. TIPS Index (Series - L) (27.8%), and Barclays U.S. High Yield Index (44.4%) effective April 1, 2009. The weights to these indexes have varied in previous quarters. Prior to April 1, 2007, the Barclays Capital Aggregate Bond Index was used in place of the Barclays Capital U.S. Universal Index.

(4) Barclays Multiverse Index effective April 1, 2007; previously was the Barclays Global Aggregate Bond Index.

(5) Returns reported on a one-quarter lag, except for publicly traded real estate security information.

(6) Returns presented are a blend of the net value-weighted National Council of Real Estate Investment Fiduciaries(NCREIF)/Townsend Fund Index (NIFI) sub-indicies (Open-End Diversified Core Equity, Closed-End Value Added, and All Opportunistic, as of April 1, 2010. Previously, a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index was used, and prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

(7) Absolute Return started April 1, 2009.

(8) Cash started November 1, 2008.

(9) Over the past 25 years ended December 31, 2010, the Fund earned an annualized rate of return of 9.01 percent which remains above the Fund's current assumed actuarial rate of return of 8.0 percent.



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Section 3 - Investment Information

Asset Allocation (as of December 31, 2010)

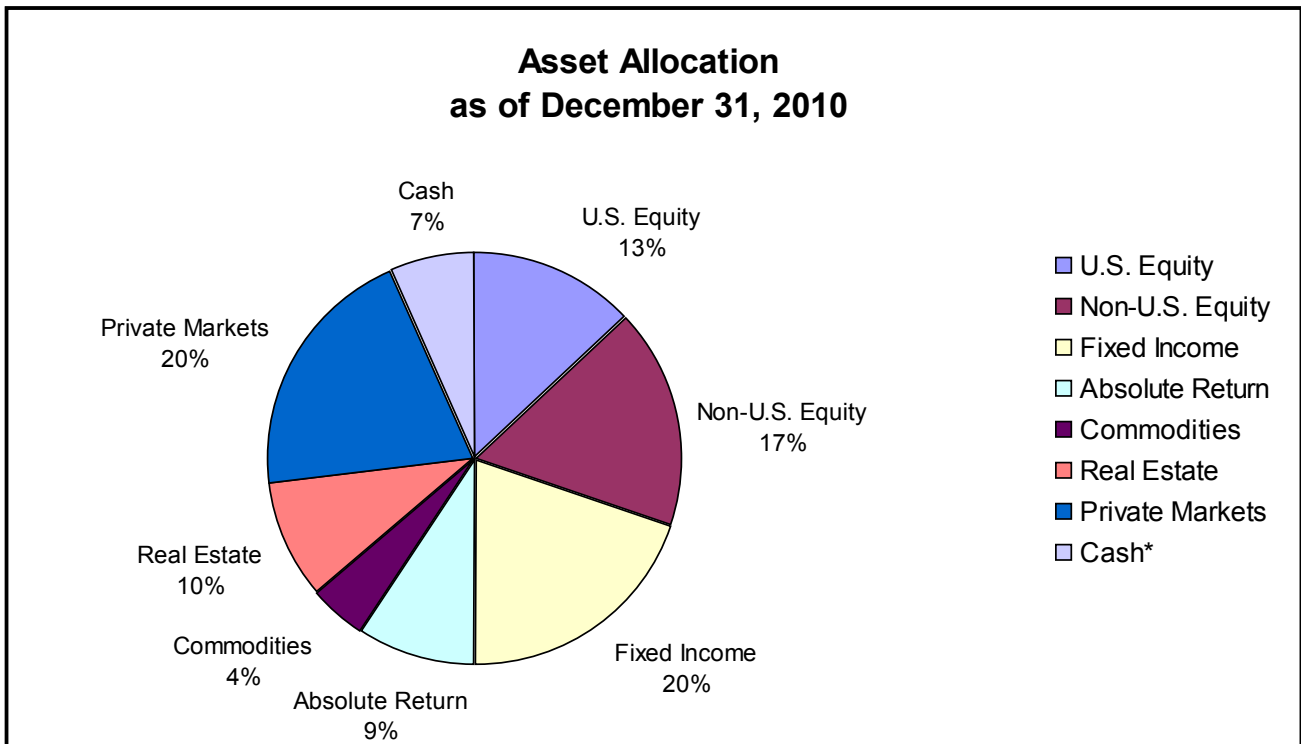
mation it deems appropriate in formulating this allocation. The purpose of the asset allocation is to meet the long-term financial needs and investment objectives of the System.

The Board reviews the long-term asset allocation targets of the System at least annually. In establishing the asset allocation plan, the Board will consult with its actuary, consultants, investment staff, and other sources of infor-

The following represents PSERS' asset allocation as of December 31, 2010 (unaudited):

<u>Asset Class</u>	<u>Market Value (in millions)</u>	<u>Percentage of Total</u>	<u>Target Allocation %</u>	<u>Target Allocation Range</u>
U.S. Equity	\$ 6,481.7	13.2%	11.9%	± 5%
Non-U.S. Equity	8,418.9	17.1	15.7	± 5
Fixed Income	9,682.6	19.7	22.9	±10
Absolute Return	4,605.2	9.3	10.0	± 4
Commodities	2,086.5	4.2	5.0	± 4
Real Estate	4,747.1	9.6	9.0	-
Private Markets	9,929.4	20.2	20.5	-
Cash*	<u>3,303.1</u>	<u>6.7</u>	<u>5.0</u>	± 5
Totals	<u>\$ 49,254.5</u>	<u>100.0%</u>	<u>100.0%</u>	

* Cash represents the total short-term investment fund (STIF) managed by PSERS in the PSERS Proprietary Fund. Cash is unitized and the managers in the various asset classes are allocated units of STIF. For purposes of this schedule, units of STIF are not included in the various asset classes. For example, a U.S. Equity manager may manage \$200 million, but if that manager has \$10 million in STIF, \$190 million would be included in U.S. Equity and \$10 million would be included in Cash.



**Asset Allocation
(as of December 31, 2010)
(continued)**

Number of Investment Managers and Portfolios

Public Market Asset Classes (ex. Real Estate)

PSERS public market equity, fixed income, and commodity asset classes used 58 external investment managers who were responsible for 65 portfolios, and 6 internal portfolio managers who were responsible for 10 portfolios. There were 5 external public market investment managers with portfolios in multiple asset classes.

Private Markets and Real Estate

PSERS private markets and real estate (public and private markets) asset classes used 113 active external general partners to invest in 238 limited partnership interests of various private market real estate, private debt, private equity, and venture capital funds. PSERS had 2 internal real estate investment managers who are responsible for 1 public market real estate portfolio. Finally, PSERS had 6 external and 2 internal real estate asset managers who oversee the direct management of 6 separate real estate accounts. A further breakdown of the external and internal portfolio managers follows:

	<i>Portfolio Managers</i>	<i>Portfolios/Accounts</i>
<i>U.S. Equity Investments:</i>		
External*	9	9
Internal	3	3
<i>Non-U.S. Equity Investments:</i>		
External*	13	15
Internal	1	3
<i>Fixed Income Investments:</i>		
External*	17	20
Internal**	2	3
<i>Absolute Return:</i>		
External*	13	14
<i>Commodities:</i>		
External	5	5
<i>Cash:</i>		
Internal	1	1
<i>Securities Lending:</i>		
External	1	2
<i>Total</i>	65	75
<i>Total External*</i>	58	65
<i>Total Internal</i>	7	10

* The Public Market Emerging Investment Manager Program consisted of 13 portfolio managers each managing a single portfolio. There were 7 U.S. Equity, 3 Non-U.S. Equity, 2 Fixed Income portfolios, and 1 Absolute Return portfolio in the Program.

** PSERS managed \$210.9 million for the System's healthcare account.

**Summary of PSERS’
U.S. Equity Investments
(as of December 31, 2010)**

U.S. Equities represent one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS’ investment plan diversifies equity investments and balances equity management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage U.S. portfolios.

Policy

U.S. Equities are utilized by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The U.S. Equity asset class is to be managed on a total return basis.

U.S. Equity investments shall consist almost entirely of publicly-traded securities listed on the New York, American, and Nasdaq Stock Exchanges or derivatives such as swaps or listed futures to replicate the performance of U.S. equity indexes such as the S&P 500 Index. Swaps and futures are employed by PSERS to equitize cash and portable alpha portfolios.

PSERS’ Asset Allocation targets an eventual allocation of 11.9% of assets to U.S. Equities.

Market Value as of December 31, 2010: \$6,481.7 million, or 13.2% of the Fund’s total market value.

Number of External Investment Managers: PSERS had contracts with nine external investment managers responsible for various U.S. Equity portfolios (including seven Public Market Emerging Manager Program managers).

Number of Internal Portfolio Managers: PSERS had three employees managing various U.S. Equity portfolios.

Types of Investment Portfolios at December 31, 2010:

- 78.4% large capitalization stock strategies, 20.3% medium/small capitalization stock strategies, and 1.3% in micro capitalization stock strategies
- 88.8% passively-managed portfolios and 11.2% actively-managed stock selection portfolios
- 89.8% was managed by internal portfolio managers and 10.2% is managed by external investment managers



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Section 3 - Investment Information

Summary of PSERS' U.S. Equity Portfolios (unaudited) (as of December 31, 2010)

	Market Value (in millions)	% of U. S. Equities	% of Total Fund
<i>Passively Managed Portfolios</i>			
PSERS S&P 400 Index Fund	\$ 440.5	6.8%	0.9%
PSERS S&P 500 Index Fund	4,933.0	76.1%	10.0%
PSERS S&P 600 Index Fund	<u>379.2</u>	<u>5.9%</u>	<u>0.8%</u>
Total Passively Managed U.S. Equity	\$ <u>5,752.8</u>	<u>88.8%</u>	<u>11.7%</u>
<i>Actively Managed Large Cap Portfolios</i>			
EDMP, Inc.	\$ 49.8	0.8%	0.1%
Hellman Jordan	33.8	0.5%	0.1%
Other (Includes PSERS Equity Liquidation)	<u>67.6</u>	<u>1.0%</u>	<u>0.1%</u>
Total Actively Managed Large Cap U.S. Equity	\$ <u>151.3</u>	<u>2.3%</u>	<u>0.3%</u>
<i>Actively Managed Mid and Small Cap Portfolios</i>			
AH Lisanti Capital Growth, LLC	\$ 36.1	0.6%	0.1%
Conestoga Capital Advisors	59.3	0.9%	0.1%
First Pacific Advisors, Inc.	252.4	3.9%	0.5%
Harvest MLP II	81.9	1.3%	0.2%
Opus Capital Management	<u>62.3</u>	<u>1.0%</u>	<u>0.1%</u>
Total Actively Managed Mid and Small Cap U.S. Equity	\$ <u>492.0</u>	<u>7.6%</u>	<u>1.0%</u>
<i>Actively Managed MicroCap Portfolios</i>			
Ativo Capital Management	\$ 22.0	0.3%	0.0%
NorthPointe Capital, LLC	62.5	1.0%	0.1%
Other	<u>1.2</u>	<u>0.0%</u>	<u>0.0%</u>
Total Actively Managed MicroCap U.S. Equity	\$ <u>85.7</u>	<u>1.3%</u>	<u>0.2%</u>
Total U.S. Equity	\$ <u>6,481.7</u>	<u>100.0%</u>	<u>13.2%</u>
<i>Numbers may not add due to rounding.</i>			

**Summary of PSERS' Non-U.S. Equity Investments
(as of December 31, 2010)**

Non-U.S. Equities represent one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies equity investments and balances equity management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage Non-U.S. portfolios.

Policy

Non-U.S. Equities are utilized by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Non-U.S. Equity asset class is to be managed on a total return basis.

Non-U.S. Equity investments shall consist almost entirely of publicly-traded securities listed on the exchanges in the countries approved by PSERS that provide PSERS with an equity interest in private sector concerns (i.e. common stock, preferred stock, convertible preferred stock, convertible

bonds, etc.). Swaps and futures are employed by PSERS to equitize cash and portable alpha portfolios.

PSERS' Asset Allocation targets an eventual allocation of 15.7% of assets to Non-U.S. Equities.

Market Value as of December 31, 2010: \$8,418.9 million, or 17.1% of the Fund's total market value.

Number of External Investment Managers: PSERS had contracts with 13 external investment managers responsible for various Non-U.S. Equity portfolios (including three Public Market Emerging Investment Manager Program managers).

Number of Internal Portfolio Managers: PSERS had one employee managing three Non-U.S. Equity portfolios.

Types of Investment Portfolios at December 31, 2010:

- 79.8% large capitalization stock strategies, 12.2% small capitalization strategies, and 8.0% emerging market stock strategies
- 67.3% passively-managed portfolios (managed internally) and 32.7% actively-managed portfolios (managed externally)



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Section 3 - Investment Information

Summary of PSERS' Non-U.S. Equity Portfolios (unaudited) (as of December 31, 2010)

	Market Value (in millions)	% of Non-U. S. Equities	% of Total Fund
<i>Passively Managed Portfolios</i>			
PSERS ACWI x-US Index Fund	\$ 5,124.3	60.9%	10.4%
PSERS Emerging Markets Index	305.8	3.6%	0.6%
PSERS World X-US Small Cap	<u>238.3</u>	<u>2.8%</u>	<u>0.5%</u>
Total Passively Managed Non-U.S. Equity	\$ <u>5,668.5</u>	<u>67.3%</u>	<u>11.5%</u>
<i>Actively Managed Developed Large Cap Portfolios</i>			
Baillie Gifford Overseas Ltd.	\$ 471.6	5.6%	1.0%
BlackRock Financial Management, Inc.	520.8	6.2%	1.1%
John Hsu Capital Group, Inc.	82.6	1.0%	0.2%
Marathon Asset Management Limited	454.3	5.4%	0.9%
Shah Capital Management	70.8	0.8%	0.1%
Pareto Investment Management, Ltd.	<u>(6.6)</u> a	<u>(0.1)%</u>	<u>0.0%</u>
Total Actively Managed Developed Large Cap Non-U.S. Equity	\$ <u>1,593.5</u>	<u>18.9%</u>	<u>3.2%</u>
<i>Actively Managed Emerging Market Portfolios</i>			
Batterymarch Financial Mgmt., Inc.	\$ 132.2	1.6%	0.3%
Wellington Management Co., LLP	146.7	1.7%	0.3%
Westwood Global Investments	70.4	0.8%	0.1%
Terminated Manager	<u>25.0</u>	<u>0.3%</u>	<u>0.1%</u>
Total Actively Managed Emerging Market Non-U.S. Equity	\$ <u>374.3</u>	<u>4.4%</u>	<u>0.8%</u>
<i>Actively Managed Developed Small Cap Portfolios</i>			
Acadian Asset Management	\$ 156.7	1.9%	0.3%
Batterymarch Financial Mgmt., Inc.	60.8	0.7%	0.1%
Oberweis Asset Management, Inc.	84.9	1.0%	0.2%
Pyramis Global Advisors	122.5	1.5%	0.2%
Wasatch Advisors, Inc.	150.4	1.8%	0.3%
Wasatch Advisors - Small Cap Emerging Markets	<u>207.3</u>	<u>2.5%</u>	<u>0.4%</u>
Total Actively Managed Developed Small Cap Non-U.S. Equity	\$ <u>782.6</u>	<u>9.3%</u>	<u>1.6%</u>
Total Non-U.S. Equity	\$ <u>8,418.9</u>	<u>100.0%</u>	<u>17.1%</u>

a The Market Value represents the cumulative net loss on unsettled foreign exchange contracts.

Numbers may not add due to rounding.

**Summary of PSERS' Fixed Income Investments
(as of December 31, 2010)**

Fixed Income represents one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies Fixed Income investments and balances Fixed Income management styles. PSERS contracts with external investment managers and hires internal portfolio managers to manage portfolios.

Policy

Fixed Income investments are utilized by the Fund primarily because of their ability to serve as a hedge against disinflation and/or deflation, their general ability to produce current income in the form of periodic interest payments, and because such investments help diversify the overall Fund. The Fixed Income class is to be managed on a total return basis.

PSERS' Asset Allocation targets an eventual allocation of 22.9% of assets to Fixed Income, 5.0% of which is designated to U.S. core/core plus strategies, 5.0% of which is designated to TIPS strategies, 8.0% of which is designated to high yield/opportunistic strategies, 2.0% of which is designated to global core/core plus strategies, and 2.9% of which is designated to be Emerging Markets strategies. Of the total Fixed Income allocation, 10.0%

is assigned to U.S. fixed income portfolios and 12.9% is assigned to global fixed income portfolios. Fixed Income investments are targeted to be 100.0% actively managed.

Market Value as of December 31, 2010: \$9,682.6 million, or 19.7% of the Fund's total market value.

Number of External Investment Managers: PSERS had contracts with 17 external investment managers responsible for various Fixed Income portfolios (including two Public Market Emerging Investment Manager Program managers).

Number of Internal Portfolio Managers: PSERS had two employees managing various Fixed Income portfolios.

Types of Investment Portfolios at December 31, 2010:

- 86.5% U.S. fixed income portfolios and 13.5% global fixed income portfolios
- 28.9% core/core plus strategies portfolios, 25.3% TIPS strategies portfolios, 32.2% high yield/opportunistic strategies portfolios, 6.0% global core/core plus strategies portfolios, and 7.5% emerging markets strategies portfolios
- 27.4% was managed by internal portfolio managers and 72.6% is managed by external investment managers



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Section 3 - Investment Information

Summary of PSERS' Fixed Income Portfolios (unaudited) (as of December 31, 2010)

	Market Value (in millions)	% of Total Fixed Income	% of Total Fund
<u>Actively Managed U.S. Core/Core Plus Fixed</u>			
<u>Income Portfolios</u>			
BlackRock U.S. Extended Core Global Alpha Fund	\$ 684.3	7.1%	1.4%
Pacific Investment Mgmt. Co. (PIMCO)	453.0	4.7%	0.9%
Piedmont Investment Advisors	44.3	0.5%	0.1%
PSERS Active Aggregate	1,208.7	12.5%	2.5%
Pugh Capital Management, Inc.	46.8	0.5%	0.1%
Western Asset Management Co.	202.3	2.1%	0.4%
Terminated Managers	152.2	1.6%	0.3%
Other	<u>3.5</u>	<u>0.0%</u>	<u>0.0%</u>
Total Actively Managed U.S. Core/Core Plus Fixed Income	\$ <u>2,795.2</u>	<u>28.9%</u>	<u>5.7%</u>
<u>Actively Managed Treasury Inflation-Protected</u>			
<u>Securities (TIPS) Portfolios</u>			
Bridgewater Associates, Inc.	\$ 1,165.5	12.0%	2.4%
PSERS TIPS Portfolio	<u>1,288.4</u>	<u>13.3%</u>	<u>2.6%</u>
Total Actively Managed Treasury Inflation- Protected Securities (TIPS)	\$ <u>2,453.8</u>	<u>25.3%</u>	<u>5.0%</u>
<u>Actively Managed High Yield Fixed Income Portfolio</u>			
MacKay-Shields Financial Corporation	\$ <u>491.0</u>	<u>5.1%</u>	<u>1.0%</u>
<u>Actively Managed Credit Opportunity Portfolios</u>			
BlackRock Mortgage (Offshore) Investors	\$ 592.4	6.1%	1.2%
Brookfield Asset Management, Inc.	444.6	4.6%	0.9%
LBC Credit Partners II, LP	97.0	1.0%	0.2%
Mariner Investment Group	161.0	1.7%	0.3%
Oaktree Loan Fund	259.8	2.7%	0.5%
Sankaty Credit Opportunities Fund IV, LP	403.0	4.2%	0.8%
Sankaty Advisors LLC - Bank Loans	631.7	6.5%	1.3%
Sankaty Middle Market Opportunities Fund	<u>38.2</u>	<u>0.4%</u>	<u>0.1%</u>
Total Actively Managed Credit Opportunity Fixed Income	\$ <u>2,627.7</u>	<u>27.1%</u>	<u>5.3%</u>
Total Actively Managed U.S. Fixed Income	\$ <u>8,367.7</u>	<u>86.4%</u>	<u>17.0%</u>

Section 3 - Investment Information

Summary of PSERS' Fixed Income Portfolios (unaudited) (as of December 31, 2010) (continued)

	Market Value (in millions)	% of Total Fixed Income	% of Total Fund
<i>Actively Managed Global Core Plus Fixed</i>			
<i>Income Portfolios</i>			
Aberdeen Asset Management, Inc.	\$ 171.0	1.8%	0.3%
Fischer, Francis, Trees & Watts, Inc.	208.9	2.2%	0.4%
Rogge Global Partners	<u>204.5</u>	<u>2.1%</u>	<u>0.4%</u>
Total Actively Managed Global Core Plus			
Fixed Income	\$ <u>584.3</u>	<u>6.1%</u>	<u>1.2%</u>
<i>Actively Managed Global Emerging Markets Fixed</i>			
<i>Income Portfolios</i>			
Franklin Templeton	\$ 420.0	4.3%	0.9%
Stone Harbor Investment Partners	<u>310.6</u>	<u>3.2%</u>	<u>0.6%</u>
Total Actively Managed Global Emerging Markets			
Fixed Income	\$ <u>730.5</u>	<u>7.5%</u>	<u>1.5%</u>
Total Fixed Income	\$ <u>9,682.6</u>	<u>100.0%</u>	<u>19.7%</u>

Numbers may not add due to rounding.



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Section 3 - Investment Information

Summary of PSERS' Absolute Return Investments (as of December 31, 2010)

Absolute Return represents one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS contracts with external investment managers to manage absolute return portfolios.

Policy

Absolute Return investments are utilized by the Fund primarily to generate returns that are uncorrelated with other asset classes or investments and help diversify the overall Fund. The benchmark for PSERS' Absolute Return investments is an absolute return of 8.0% annualized with risk of 8.0% or lower at the program level over a full market cycle.

Absolute Return investments shall be in a variety of unique, non-directional investment strategies, including equity and fixed income long/short, global macro, currency, option, capital structure arbitrage, and other strategies. The Fund shall diversify this program by manager and style.

PSERS' Asset Allocation currently targets an allocation of 10.0% of assets in Absolute Return investments.

Market Value as of December 31, 2010: \$4,605.2 million, or 9.3% of the Fund's total market value.

Number of External Investment Managers: PSERS had contracts with 13 external investment managers responsible for the various Absolute Return portfolios (including one Public Market Emerging Manager Program manager).

Number of Internal Investment Managers: None.

Summary of PSERS' Absolute Return Portfolios (unaudited) (as of December 31, 2010)

	<u>Market Value (in millions)</u>	<u>% of Total Absolute Return</u>	<u>% of Total Fund</u>
<i>Actively Managed Absolute Return Portfolios</i>			
Acorn Derivatives Management Corp.	\$ 3.8	0.1%	0.0%
AQR Capital Management	761.4	16.5%	1.5%
BlackRock Capital Structure Investments Fund	202.6	4.4%	0.4%
BlackRock Financial Management, Inc.	733.7	15.9%	1.5%
Boston Company Asset Management	206.6	4.5%	0.4%
Brevan Howard Fund, Ltd.	354.6	7.7%	0.7%
Bridgewater Associates, Inc.	786.2	17.1%	1.6%
Brigade Capital Management	815.9	17.7%	1.7%
Denali Advisors, LLC	38.1	0.8%	0.1%
First Quadrant, L.P.	185.1	4.0%	0.4%
FX Concepts, Inc.	11.6	0.3%	0.0%
Lazard Asset Management	117.7	2.6%	0.2%
Pacific Investment Mgmt. Co. (PIMCO)	389.0	8.4%	0.8%
Pareto Investment Management, Ltd.	(1.2) a	0.0%	0.0%
Total Absolute Return	<u>\$ 4,605.2</u>	<u>100.0%</u>	<u>9.3%</u>

a The Market Value represents the cumulative net loss on unsettled foreign exchange contracts.
Numbers may not add due to rounding.

**Summary of
PSERS' Commodity Investments
(as of December 31, 2010)**

Commodities represent one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS' investment plan diversifies Commodity investments and balances Commodity management styles. PSERS contracts with external investment managers to manage commodity portfolios.

Policy

Commodity investments are utilized by the Fund for diversification within the portfolio and to act as a hedge against unanticipated inflation. The prices of commodities are determined primarily by near-term events in global supply and demand conditions and are positively related with both the level of inflation and the changes in the rate of inflation. However, stock and bond valuations are based on longer-term expectations and react negatively to inflation. Therefore, commodity returns have had a historically

negative correlation to stock and bond returns. As such, commodities, when combined with stocks and bonds, lower the risk of a portfolio.

The Fund benchmarks its Commodity investments to the Dow Jones-UBS Commodity Index (DJ UBS). The DJ UBS is a broadly diversified basket of 20 commodities from 4 sectors (energy, industrial metals, precious metals, and agriculture).

PSERS' Asset Allocation currently targets an allocation of 5.0% of assets to Commodity investments and are targeted to be 100.0% actively managed.

Market Value of December 31, 2010: \$2,086.5 million, or 4.2% of the Fund's total market value.

Number of External Investment Managers: PSERS had contracts with five external investment managers to manage Commodity portfolios.

Number of Internal Investment Managers: None.

**Summary of PSERS' Commodity Portfolios (unaudited)
(as of December 31, 2010)**

	Market Value (in millions)	% of Total Commodities	% of Total Fund
<u>Full Discretion Commodity Portfolios</u>			
Deutsche Asset Management	\$ 251.6	12.1%	0.5%
Wellington Management Company, LLP	644.1	30.9%	1.3%
Total Full Discretion Commodities	\$ 895.7	42.9%	1.8%
<u>Core/Enhanced Commodity Portfolios</u>			
Credit Suisse Asset Management	\$ 348.5	16.7%	0.7%
Neuberger Berman Group, LLC	427.0	20.5%	0.9%
Schroders Investment Management	415.3	19.9%	0.8%
Total Core/Enhanced Commodities	\$ 1,190.8	57.1%	2.4%
Total Commodities	\$ 2,086.5	100.0%	4.2%

Numbers may not add due to rounding.

Summary of PSERS' Real Estate Investments (as of December 31, 2010)

Real Estate represents one of eight major asset classes that PSERS uses to diversify the investments of the Fund. The primary objective of the real estate program is to invest in real property directly or indirectly through global publicly-traded real estate securities (PTRES), direct investments, commingled fund investments, limited partnerships, and direct private placements. This is done in a prudent manner to create a diversified real estate portfolio of high quality investments which will enhance PSERS' overall long-term investment performance, diversify the asset base, and reduce the volatility of returns of the total investment portfolio.

Policy

The real estate program is designed to create the highest possible risk-adjusted returns in a controlled, coordinated, and comprehensive manner. Recognizing that real estate market conditions and PSERS' objectives for real estate may change over time, the program is reviewed periodically and updated as needed. The existing target allocation is 9.0% of total assets.

Investments are made through global PTRES, direct investments, commingled fund investments, limited partnerships, and direct private placements. It is PSERS' intent to liquidate any investment at the point in time when its value has been maximized. PSERS seeks to diversify its real estate portfolio by investing in a mix of Opportunistic (50%), Value Added (30%), and Core (20%) real estate investments.

Opportunistic real estate investing is the financing, acquisition or investment in real estate assets, real estate companies, portfolios of real estate assets, private and public REIT's that do not have access to traditional public equity or debt financing. Opportunistic real estate consists of investment strategies that seek to exploit market inefficiencies with an emphasis on total return. Opportunistic investments require specialized expertise

and the flexibility to respond quickly to market imbalances or changing market conditions. Investments may include non-traditional property types and/or assets that involve development, re-development, or leasing risks.

Value Added real estate investing typically focuses on both income growth and appreciation potential, where opportunities created by dislocations and inefficiencies between and within segments of the real estate capital markets are capitalized upon to enhance returns. Investments can include high-yield equity and debt investments and undervalued or impaired properties in need of repositioning, re-development or leasing.

Core real estate investing is the financing, acquisition or investment in real estate assets, real estate companies, portfolios of real estate assets, private REITs that are broadly diversified by property type and location, focused primarily on completed, well-leased properties with modest levels of leasing risk, using relatively low leverage, and investing mainly in institutional property types and qualities allowing for relative ease of resale.

Market Value as of December 31, 2010: \$4,747.1 million or 9.6% of the Fund's total market value. This market value represents the combination of December 31, 2010 and September 30, 2010 market values adjusted for cash flows that occurred during the fourth quarter of 2010.

Number of External Investment Managers: PSERS had contracts with 6 external directly managed real estate asset managers and 42 external general partners to manage the real estate separate account, public securities, and pool fund portfolios.

Number of Internal Portfolio Managers: PSERS had two employees managing real estate portfolios.

Types of Investment Portfolios at December 31, 2010:

- 4.2% Separate Account Portfolios
- 3.7% Public Securities Portfolios
- 92.1% Pooled Fund Portfolios

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Summary of PSERS' Real Estate Portfolios (unaudited) (as of December 31, 2010)

<u>Separate Accounts</u>	<u>Market Value (in millions)</u>	<u>% of Total Real Estate</u>	<u>% of Total Fund</u>
Charter Oak Advisors, Inc.	\$ 83.3	1.8%	0.2%
GF Management, Inc.	59.5	1.3%	0.1%
Grandbridge Real Estate Capital, LLC	2.9	0.1%	0.0%
Grosvenor Investment Management U.S., Inc.	8.4	0.2%	0.0%
L&B Realty Advisors, LLP	22.0	0.5%	0.0%
Prudential Agricultural Group	<u>23.4</u>	<u>0.5%</u>	<u>0.0%</u>
Total Real Estate Separate Accounts	\$ <u>199.6</u>	<u>4.2%</u>	<u>0.4%</u>
<u>Public Securities</u>			
<u>Actively Managed Publicly Traded Real Estate</u>			
<u>Securities Portfolio</u>			
Security Capital Research & Management, Inc. - Preferred Growth	\$ <u>175.9</u>	<u>3.7%</u>	<u>0.4%</u>

Numbers may not add due to rounding.



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Section 3 - Investment Information

Summary of PSERS' Real Estate Portfolios (unaudited) (as of December 31, 2010) (continued)

<u>Pooled Funds</u>	<u>Market Value (in millions)</u>	<u>% of Total Real Estate</u>	<u>% of Total Fund</u>
Apollo European Real Estate Fund III, L.P.	\$ 57.3	1.2%	0.1%
Apollo Real Estate Finance Corp.	119.1	2.5%	0.2%
Apollo Value Enhancement Fund VII, L.P.	59.6	1.3%	0.1%
AREFIN Co-Invest Corp.	62.6	1.3%	0.1%
AvalonBay Value Added Fund, L.P.	52.0	1.1%	0.1%
AvalonBay Value Added Fund II, L.P.	59.5	1.3%	0.1%
Avenue Real Estate Fund Parallel, L.P.	55.1	1.2%	0.1%
Beacon Capital Strategic Partners V, L.P.	64.7	1.4%	0.1%
Berwind Property Group, Fund IV, & V, L.P.	17.2	0.4%	0.0%
Berwind Property Group, Fund VI, L.P.	27.7	0.6%	0.1%
Blackstone Real Estate Partners V. TE.1, L.P.	154.4	3.3%	0.3%
Blackstone Real Estate Partners VI. TE.1, L.P.	274.4	5.8%	0.6%
Blackstone Real Estate Partners Europe III, L.P.	21.8	0.5%	0.0%
BPG Co-Investment Partnership, L.P.	18.4	0.4%	0.0%
Broadway Partners RE Fund II, L.P.	22.9	0.5%	0.0%
Broadway Partners Parallel Fund P III, L.P.	7.2	0.2%	0.0%
Cabot Industrial Value Fund III, L.P.	15.7	0.3%	0.0%
Carlyle Europe Real Estate Partners III-A, L.P.	112.7	2.4%	0.2%
Carlyle Realty III, L.P.	45.8	1.0%	0.1%
Carlyle Realty IV, L.P.	81.9	1.7%	0.2%
Carlyle Realty V, L.P.	254.8	5.4%	0.5%
Centerline High Yield CMBS Fund III, LLC	5.8	0.1%	0.0%
Cornerstone Patriot Fund, L.P.	63.3	1.3%	0.1%
CS Strategic Partners IV Real Estate, L.P.	39.4	0.8%	0.1%
CSFB Strategic Partners II RE, L.P.	14.1	0.3%	0.0%
CSFB Strategic Partners III RE, L.P.	31.1	0.7%	0.1%
DLJ Real Estate Capital Partners II, L.P.	18.1	0.4%	0.0%
DLJ Real Estate Capital Partners III, L.P.	94.1	2.0%	0.2%
DLJ Real Estate Capital Partners IV, L.P.	94.7	2.0%	0.2%
DRA Growth and Income Fund VI, L.P.	63.3	1.3%	0.1%
Fillmore West Fund, L.P.	40.3	0.8%	0.1%
Five Arrows Realty Securities V, L.P.	34.5	0.7%	0.1%
Fortress Investment Fund IV, L.P.	73.4	1.5%	0.1%
Fortress Investment Fund V (Fund A) , L.P.	117.8	2.5%	0.2%
Fortress PSERS Investment, L.P.	23.2	0.5%	0.0%
Hines U.S. Office Value Added Fund, L.P.	34.6	0.7%	0.1%
JPMCB Strategic Property Fund	17.1	0.4%	0.0%

Section 3 - Investment Information

Summary of PSERS' Real Estate Portfolios (unaudited) (as of December 31, 2010) (continued)

<u>Pooled Funds (continued)</u>	<u>Market Value (in millions)</u>	<u>% of Total Real Estate</u>	<u>% of Total Fund</u>
Legg Mason Real Estate Capital, Inc.	\$ 11.3	0.2%	0.0%
Legg Mason Real Estate Capital II, Inc.	94.3	2.0%	0.2%
Lehman Brothers PSERS Real Estate, L.P.	51.6	1.1%	0.1%
Lehman Brothers Real Estate Pension Partners II, L.P.	106.7	2.2%	0.2%
Lehman Brothers Real Estate Pension Partners III, L.P.	64.3	1.4%	0.1%
LEM Real Estate Mezzanine Fund II, L.P.	39.4	0.8%	0.1%
LF Strategic Realty Investors I, L.P.	1.8	0.0%	0.0%
LF Strategic Realty Investors II, L.P.	104.0	2.2%	0.2%
Lubert-Adler Real Estate Fund III, L.P.	5.5	0.1%	0.0%
Lubert-Adler Real Estate Fund IV, L.P.	23.0	0.5%	0.0%
Lubert-Adler Real Estate Fund V, L.P.	44.5	0.9%	0.1%
Lubert-Adler Real Estate Fund VI, L.P.	56.1	1.2%	0.1%
Madison Marquette Retail Enhancement Fund, L.P.	49.8	1.0%	0.1%
MGPA Asia Fund III, L.P.	68.9	1.5%	0.1%
MGPA Europe Fund III, L.P.	55.8	1.2%	0.1%
Morgan Stanley Real Estate Fund II L.P.	15.6	0.3%	0.0%
Morgan Stanley Real Estate Fund IV Sp. Dom. L.P.	20.2	0.4%	0.0%
Morgan Stanley Real Estate Fund IV Sp. Int'l L.P.	19.8	0.4%	0.0%
Morgan Stanley Real Estate Fund V Sp. Int'l L.P.	86.0	1.8%	0.2%
Morgan Stanley Real Estate Fund V Sp. U.S. L.P.	9.0	0.2%	0.0%
Morgan Stanley Real Estate Fund VI Sp. Int'l L.P.	85.2	1.8%	0.2%
Morgan Stanley Real Estate Fund VII Global L.P.	40.5	0.9%	0.1%
O'Connor North American Property Partners, L.P.	38.5	0.8%	0.1%
O'Connor North American Property Partners II, L.P.	27.2	0.6%	0.1%
Paladin Realty Latin America III, L.P.	61.7	1.3%	0.1%
Peabody Global Real Estate Partners, L.P.	2.9	0.1%	0.0%
Prime Property Fund, LLC	35.6	0.7%	0.1%
PRISA	63.6	1.3%	0.1%
ProLogis North American Industrial Fund, L.P.	130.4	2.7%	0.3%
RCG Longview Debt Fund IV, L.P.	64.4	1.4%	0.1%
RCG Longview Equity Fund PA PSERS, L.P.	67.0	1.4%	0.1%
RREEF America REIT II, Inc.	2.7	0.1%	0.0%
Stockbridge Real Estate Fund I, L.P.	227.3	4.8%	0.5%
Stockbridge Real Estate Fund II-A, L.P.	49.6	1.0%	0.1%
Stockbridge Real Estate Fund III, L.P.	47.5	1.0%	0.1%
Strategic Partners Value Enhancement Fund, L.P.	38.5	0.8%	0.1%
UBS Trumbull Property Fund, L.P.	61.6	1.3%	0.1%

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Summary of PSERS' Real Estate Portfolios (unaudited)
 (as of December 31, 2010)
 (continued)

<u>Pooled Funds (continued)</u>	<u>Market Value (in millions)</u>	<u>% of Total Real Estate</u>	<u>% of Total Fund</u>
Westbrook Real Estate Fund, L.P.	\$ 1.1	0.0%	0.0%
Whitehall Street Real Estate V & VI, L.P.	0.4	0.0%	0.0%
Whitehall Street Real Estate VII & VIII, L.P.	1.4	0.0%	0.0%
William E. Simon & Sons Realty Partners, L.P.	<u>46.9</u>	<u>1.0%</u>	<u>0.1%</u>
Total Real Estate Pooled Funds	\$ <u>4,371.5</u>	<u>92.1%</u>	<u>8.9%</u>
Total Real Estate	\$ <u>4,747.1</u>	<u>100.0%</u>	<u>9.6%</u>



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Summary of PSERS' Private Market Investments (as of December 31, 2010)

Private Market investments represent one of eight major asset classes that PSERS uses to diversify the investments of the Fund. The primary vehicle used to invest funds in this asset class is the limited partnership. Individual management groups selected by PSERS form these partnerships for the purpose of investing in and managing private equity and unlisted-subordinated debt positions on behalf of PSERS and other limited partners. PSERS' Asset Allocation currently targets an allocation of 20.5% to Private Market investments. Private Market Investment sub-asset class explanations are as follows:

Private Equity involves investments in private companies which normally do not have technology risk associated with traditional venture capital investments. It has evolved to include the financing of more mature, profitable companies that do not have access to, or qualify for, public equity and debt funding. Private Equity strategies include:

- *Buyouts* - Investment strategy is to acquire the assets of a publicly or privately held company. A subset of this category is the leveraged buyout, where financing enables companies to be acquired through the use of borrowed funds. Typically, the assets of target companies serve as collateral for loans originated in the transaction.
- *Secondary Partnerships* - An investment strategy to acquire interests in established limited partnerships. Secondary investing can often be lucrative due to the fact that the partnerships are purchased at significant discounts to net asset value and the timing of the purchase frequently occurs as the acquired partnerships begin to realize profits.

Venture Capital is considered the financing of young, relatively small, rapidly growing companies. In traditional venture capital investments, companies have a 5-10 year investment horizon and develop technology for a particular market, such as pharmaceuticals, software, medical products, etc. Venture capital strategies are typically classified as follows:

- *Seed* - An investment strategy that involves companies that are still in the conceptual stage of growth. Seed stage investing involves product viability risk.

- *Early Stage* - An investment strategy involving financing portfolio companies for product development and initial marketing, manufacturing and sales activities. Typically, early stage companies have been formed, but revenues have not been realized. Early stage investment involves risks associated with defining competitive markets, developing production and marketing channels.
- *Later Stage* - An investment strategy involving financing portfolio companies for rapid expansion. Risk at this stage revolves around capturing market share while increasing production and delivery capabilities and building sales volume.
- *Balanced* - An investment strategy including a variety of portfolio company development stages (Seed, Early, Later, etc.).

Private Debt involves investments in the secured and/or unsecured debt obligations of private and/or public companies. This debt is typically acquired through directly negotiated or competitively bid transactions. Owners of these debt instruments typically take either an active or passive role in the management of the firm. Private Debt strategies are typically classified as follows:

- *Mezzanine* - Investments in unsecured or junior debt securities with equity enhancements such as warrants or nominally priced equity.
- *Distressed Debt* - Investments in the debt obligations of under-performing companies that are in need of operating or financial restructuring, and are either in or out of bankruptcy.
- *Structured Products* - Investments in the debt tranche of a security that is generally leveraged and backed by a diversified pool of assets. Assets include bank debt, investment grade debt, non-investment grade debt, or mortgages.

Policy

For the Private Market investments program, PSERS' long-term investment objective is to achieve a risk-adjusted total return, net of fees, that exceeds market returns for similar investments, or benchmark returns furnished by Venture Economics on a vintage year weighted basis.

Section 3 - Investment Information

Summary of PSERS' Private Market Investments (as of December 31, 2010) (continued)

Market Value as of December 31, 2010: \$9,929.4 million, or 20.2% of the Fund's total market value. Sub-asset class market values (unaudited) and fund percentages were as follows:

	Total Commitment (in millions)	Market Value (in millions)	Percent Allocation to Total Fund
Private Equity	\$ 15,112.0	\$ 6,729.4	13.7%
Venture Capital	2,048.4	792.4	1.6
Private Debt	<u>3,917.5</u>	<u>2,407.6</u>	<u>4.9</u>
Totals	\$ <u>21,077.9</u>	\$ <u>9,929.4</u>	20.2%

An objective of PSERS' Private Market Investments Program is to maintain investment diversification by industry, geographic location, and investment strategy. Diversification levels as of December 31, 2010 are as follows:

Industry diversification

(by number of companies in each industry)

Secondary Funds	27.7%
Services	12.7%
Industrial	12.3%
Financial	9.2%
Computer	8.8%
Medical	7.8%
Communication	8.0%
Consumer	4.7%
Transportation	3.7%
Energy	2.6%
Real Estate	1.8%
Other	0.7%

Geographical diversity

(by percentage of companies located in each state)

International	28.3%
New York	18.1%
California	13.2%
Massachusetts	4.1%
Pennsylvania	4.0%
Texas	4.7%
New Jersey	2.8%
Illinois	2.4%
Connecticut	2.6%
Florida	2.1%
Maryland	1.7%
Ohio	1.2%
Michigan	1.6%
Colorado	1.4%
Other	11.8%

PSERS' Private Equity Program has committed a total of \$15,112.0 million to 104 partnerships through December 31, 2010. Five of these partnerships are located in Pennsylvania. Twenty-three of the 28 international investment partnerships are included within the private equity sector. The international investments serve to increase the diversification of this asset class while providing the opportunity of increasing total returns.

PSERS' Venture Capital Program consists of 50 partnerships with committed capital totaling \$2,048.5 million through December 31, 2010. A significant number of the venture capital partnerships, 25 out of 50, are located in Pennsylvania. One of the 28 international partnerships is included within the venture capital sector.

PSERS Private Debt Program has committed \$3,917.5 million to 25 partnerships through December 31, 2010. The Private Debt Program was initiated in 2000 by re-allocating \$1.0 billion from the Fixed Income allocation to take advantage of the attractive market conditions within the mezzanine and distressed debt sectors. Two partnerships are located in Pennsylvania, and 4 of the 28 international partnerships are included within the private debt sector.

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Summary of PSERS' Active Private Market Investments Committed, Drawn, and Distributed (unaudited) (as of December 31, 2010)

Partnership Name Private Equity:	Vintage Year	Capital Committed	Capital Drawn	Distributions*
ABS Capital Partners II	1996	\$ 40,000,000	\$ 39,291,734	\$ 45,555,770
Actis Emerging Markets 3, L.P.	2007	200,000,000	118,899,002	5,781,415
Allegheny New Mountain Partners, L.P.	2004	100,000,000	82,522,949	36,494,830
Apax Europe VII, L.P.	2007	267,320,000	189,409,000	18,234,152
Baring Asia Private Equity Fund III, L.P.	2005	122,500,000	128,779,836	194,835,129
Baring Asia Private Equity Fund IV, L.P.	2007	300,000,000	221,936,571	111,224
Blue Point Capital Partners (B), L.P.	2001	103,750,000	85,061,943	109,881,859
Blue Point Capital Partners II (B), L.P.	2007	100,000,000	65,245,164	(834,453)
Bridgepoint Capital II (Secondary)	1998	84,714,906	81,290,641	162,520,963
Bridgepoint Europe I	1998	79,622,624	75,126,567	132,241,583
Bridgepoint Europe II	2001	400,980,000	317,885,713	579,685,599
Bridgepoint Europe III A, L.P.	2005	267,320,000	249,204,188	-
Bridgepoint Europe IV, L.P.	2008	400,980,000	117,128,224	-
Bruckmann, Rosser, Sherrill & Co. L.P.	1995	25,000,000	24,465,163	44,193,002
CS Strategic Partners IV, L.P.	2008	100,000,000	66,600,748	9,505,774
CSFB Strategic Partners II, L.P.	2003	300,000,000	258,659,544	414,376,612
CSFB Strategic Partners III-B, L.P.	2005	200,000,000	211,249,049	64,412,225
CVC Capital Partners Asia Pacific III, L.P.	2008	300,000,000	131,944,346	1,417,505
CVC European Equity Partners V (A), L.P.	2008	400,980,000	200,420,527	8,648,911
Capital International Private Equity Fund V L.P.	2007	200,000,000	157,403,615	14,508,272
Catterton Growth Partners, L.P.	2008	75,000,000	50,333,488	1,624,318
Catterton Partners V, L.P.	2004	100,000,000	100,368,763	57,857,963
Catterton Partners VI, L.P.	2006	130,000,000	100,065,131	9,176,044
Cinven Fund (Fourth), L.P.	2006	200,490,000	142,266,295	-
Clarity PSERS II, L.P.	2008	23,181,667	9,906,331	562,500
Clarity Partners L.P.	2000	203,590,000	204,424,890	113,625,449
Credit Suisse Equity Partners, L.P.	1998	137,172,500	112,858,565	22,089,623
Credit Suisse Int'l Equity Partners, L.P.	1997	83,000,000	75,537,254	93,920,749
Crestview Partners II (PF) LP	2008	200,000,000	78,430,793	5,211,507
Crestview Partners, L.P.	2005	150,000,000	148,380,811	23,650,066
DLJ Merchant Banking Partners III, L.P.	2000	300,000,000	303,459,692	464,476,583
DLJ Strategic Partners	2001	200,000,000	188,059,726	270,446,459
Dubin Clark Fund II, L.P.	2000	24,083,333	23,435,569	15,061,337
Edgewater Growth Capital Partners, L.P.	2001	59,196,500	58,604,535	37,968,978
Edgewater Private Equity Fund III, L.P.	1998	39,000,000	39,000,000	14,217,378
Evergreen Pacific Partners II, L.P.	2008	80,954,545	21,333,283	-
Evergreen Pacific Partners, L.P.	2004	50,000,000	30,457,261	3,483
First Reserve Fund XI, L.P.	2006	200,000,000	181,936,405	11,961,643

*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitments.

Section 3 - Investment Information

Summary of PSERS' Active Private Market Investments Committed, Drawn, and Distributed (unaudited) (as of December 31, 2010) (continued)

Partnership Name Private Equity (continued):	Vintage Year	Capital Committed	Capital Drawn	Distributions*
First Reserve Fund XII, L.P.	2008	\$ 250,000,000	\$ 122,873,272	\$ 9,833,215
Furman Selz Investors II L.P.	1998	56,250,000	51,479,146	84,954,024
Furman Selz Investors III L.P.	2000	100,000,000	85,443,338	178,988,804
Graham Partners	1999	56,671,214	52,401,532	43,072,100
Green Equity Investors II	1994	25,000,000	24,151,005	50,916,127
Greenpark International Investors III L.P.	2007	133,660,000	120,182,580	17,884,056
Greenwich Street Capital Partners II	1998	200,000,000	192,779,634	185,083,682
Halifax Capital Partners	1999	50,000,000	39,539,599	54,061,711
Headland Private Equity Fund 6 L.P., The	2008	200,000,000	64,877,273	22,952,741
Heritage Fund I	1994	25,000,000	24,999,999	24,755,484
Irving Place Capital Partners II L.P.	2000	300,000,000	281,223,791	340,718,368
Irving Place Capital Partners III L.P.	2006	150,000,000	105,109,206	3,818,484
Jefferies Capital Partners IV, L.P.	2005	100,000,000	76,658,747	(8,036,073)
KKR 2006 Fund L.P.	2006	300,000,000	228,815,353	38,943,688
KRG Capital Fund II	2001	100,000,000	79,553,046	115,186,428
KRG Capital Fund III, L.P.	2005	88,000,000	76,094,576	11,624,091
KRG Capital Fund IV L.P.	2007	300,000,000	148,459,482	5,301,299
Landmark Equity Partners III, L.P.	1993	27,085,010	27,085,010	75,045,740
Landmark Equity Partners IV, L.P.	1994	10,533,687	10,242,502	15,226,383
Landmark Equity Partners XIII, L.P.	2006	100,000,000	88,650,244	33,786,619
Landmark Equity Partners XIV, L.P.	2008	150,000,000	19,692,135	2,706,256
Landmark Mezzanine Partners	1995	75,000,000	59,315,512	106,599,975
Lehman Brothers Merchant Banking Partners II, L.P.	1997	158,552,133	158,552,133	210,367,304
Lexington Capital Partners I, L.P.	1996	50,000,000	49,613,120	62,659,437
Lindsay Goldberg & Bessemer L.P.	2002	300,000,000	309,227,355	577,489,506
Milestone Partners II, L.P.	2004	29,890,000	25,775,754	30,674,094
Milestone Partners III, L.P.	2008	60,000,000	42,211,800	-
Morgan Stanley Dean Witter Cap Ptrs IV, L.P.	1998	300,000,000	227,851,338	437,717,687
Navis Asia Fund V, L.P.	2007	100,000,000	96,742,402	6,849,017
New Mountain Partners III L.P.	2007	300,000,000	136,692,874	25,458,149
New Mountain Partners. L.P.	2000	192,509,033	160,234,001	181,756,495
New York Life Capital Partners I, L.P.	1999	200,000,000	204,339,809	180,582,578
New York Life Capital Partners II, L.P.	2001	200,000,000	192,757,396	412,874,450
New York Life Capital Partners III-A, L.P.	2005	200,000,000	198,815,940	29,743,447
New York Life Capital Partners IV-A. L.P.	2008	100,000,000	56,173,036	14,107
Nordic Capital VII Beta L.P.	2008	200,490,000	96,364,469	(894,160)
PAI Europe III, L.P.	2001	400,980,000	333,236,714	830,739,903

*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitments

Section 3 - Investment Information

Summary of PSERS' Active Private Market Investments Committed, Drawn, and Distributed (unaudited) (as of December 31, 2010) (continued)

Partnership Name Private Equity (continued):	Vintage Year	Capital Committed	Capital Drawn	Distributions*
PAI Europe IV-B2, L.P.	2005	\$ 133,660,000	\$ 114,353,473	\$ 33,023,313
PAI Europe V, L.P.	2007	133,660,000	61,929,865	(12,048)
PNC Equity Partners II, L.P.	2006	68,065,386	46,674,715	794,573
PNC Equity Partners, L.P.	2001	43,154,458	39,243,563	66,053,307
Palladium Equity Partners II-A, L.P.	2000	57,750,000	61,389,725	33,767,754
Partners Group Secondary 2008, L.P.	2007	200,490,000	123,021,963	9,615,002
Permira IV, L.P.	2006	167,075,000	128,948,579	-
Platinum Equity Capital Partners - A, L.P.	2004	125,000,000	97,431,167	204,854,180
Platinum Equity Capital Partners-A II, L.P.	2007	300,000,000	213,004,102	67,366,890
Providence Equity Partners VI, L.P.	2006	300,000,000	236,492,871	22,631,574
Quadrangle Capital Partners II, L.P.	2005	250,000,000	206,891,506	51,342,175
Quadrangle Capital Partners, L.P.	2001	270,422,415	221,692,563	316,119,855
Sterling Capital Partners, L.P.	2002	75,000,000	84,229,630	90,274,543
TPG Partners II, L.P.	1997	50,000,000	53,854,393	91,346,485
TPG Partners V, L.P.	2006	250,000,000	247,690,344	55,917,820
TPG Partners VI, L.P.	2008	360,000,000	141,973,145	16,440,078
Trilantic Capital Partners IV L.P.	2007	76,752,676	45,971,065	2,284,301
U.S. Equity Partners II	2001	300,000,000	214,571,442	202,215,242
Wicks Communications and Media Partners, L.P.	1999	87,500,000	88,646,504	104,929,461
Willis Stein & Partners, L.P.	1996	<u>25,000,000</u>	<u>25,000,000</u>	<u>53,573,595</u>
Total Private Equity		\$15,111,987,087	\$11,412,609,051	\$8,805,417,768

*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitments.

Numbers may not add due to rounding.



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Section 3 - Investment Information

Summary of PSERS' Active Private Market Investments Committed, Drawn, and Distributed (unaudited) (as of December 31, 2010) (continued)

Partnership Name Venture Capital:	Vintage Year	Capital Committed	Capital Drawn	Distributions*
Adams Capital Management, L.P.	1997	\$ 12,500,000	\$ 12,500,000	\$ 22,671,838
Aisling Capital II L.P.	2006	50,000,000	40,963,017	5,174,040
Aisling Capital III, L.P.	2008	50,000,000	5,615,323	-
CS Strategic Partners IV VC, L.P.	2008	50,000,000	35,217,689	3,307,650
CSFB Strategic Partners III-VC, L.P.	2005	50,000,000	48,603,502	23,308,145
Co-Investment 2000 Fund, L.P.	2000	135,000,000	135,000,000	151,734,062
Co-Investment Fund II, L.P.	2006	135,000,000	93,825,000	-
Cross Atlantic Technology Fund II	2001	21,119,734	21,119,734	12,114,382
Cross Atlantic Technology Fund, L.P.	1999	30,141,666	30,141,667	31,264,816
Edison Venture Fund III	1994	14,807,690	14,807,690	28,785,013
Franklin Capital Partners III	1995	15,000,000	15,000,000	11,012,580
Jefferson Partners Fund IV (PA) L.P.	2003	29,343,870	23,729,205	88,488
KBL Healthcare Ventures	1999	13,593,334	13,593,333	6,563,009
LLR Equity Partners II, L.P.	2004	75,000,000	75,000,000	31,907,799
LLR Equity Partners III, L.P.	2008	187,500,000	73,148,631	9,224,250
LLR Equity Partners, L.P.	1999	62,500,000	61,250,000	123,525,986
Landmark Equity Partners II, L.P.	1992	25,000,000	25,000,000	39,039,687
Landmark Equity Partners V, L.P.	1995	49,060,283	48,478,943	58,486,469
Lehman Brothers Communications Investors, L.P.	1999	12,500,000	11,442,260	5,164,360
NEPA Venture Fund II	1992	5,000,000	5,000,000	23,252,576
Novitas Capital , L.P.	1998	30,000,000	29,817,000	32,566,103
Novitas Capital II, L.P.	2000	75,000,000	74,325,000	7,485,665
P/A Fund	1993	30,000,000	30,000,000	66,195,394
Perseus-Soros BioPharmaceutical Fund	2001	112,206,666	101,994,101	147,080,696
Psilos Group Partners III, L.P.	2007	62,500,000	45,624,999	(5,475)
Quaker BioVentures, L.P.	2003	69,350,000	69,350,000	13,712,630
Quaker BioVentures II, L.P.	2007	100,000,000	45,999,125	3,290,158
SCP Private Equity Partners I, L.P.	1996	62,500,000	62,500,000	42,080,342
SCP Private Equity Partners II, L.P.	2000	125,000,000	120,913,317	24,134,558
StarVest Partners , L.P.	1999	67,500,000	65,649,343	46,233,191
StarVest Partners II (Parallel), L.P.	2007	50,000,000	16,272,254	201,996
Sterling Venture Partners, L.P.	2000	33,986,000	35,554,923	30,643,349
TDH III, L.P.	1993	7,350,750	7,350,750	4,356,902
TL Ventures III, L.P.	1997	50,000,000	50,000,000	68,925,720
Tenaya Capital IV-P, L.P.	2003	75,000,000	71,351,332	32,149,995
Tenaya Capital V-P, L.P.	2007	75,000,000	43,976,616	1,548,975
Total Venture Capital		\$ 2,048,459,993	\$ 1,660,114,754	\$ 1,107,225,350

*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitments.

Numbers may not add due to rounding.

Section 3 - Investment Information

Summary of PSERS' Active Private Market Investments Committed, Drawn, and Distributed (unaudited) (as of December 31, 2010) (continued)

Partnership Name Private Debt:	Vintage Year	Capital Committed	Capital Drawn	Distributions*
Avenue Asia Special Situations Fund II, L.P.	2001	\$ 220,000,000	\$ 220,000,000	\$ 382,068,478
Avenue Asia Special Situations Fund III, L.P.	2003	100,000,000	76,892,230	68,436,376
Avenue Asia Special Situations Fund IV, LP	2006	300,000,000	228,064,370	66,328,069
Avenue Europe Special Situations Fund, L.P.	2008	267,320,000	260,544,328	846,284
Avenue Special Situations Fund II, L.P.	2000	125,000,000	125,000,000	197,937,661
Avenue Special Situations Fund III, L.P.	2002	205,156,000	151,715,376	258,269,383
Avenue Special Situations Fund IV, L.P.	2005	115,000,000	144,782,669	109,793,075
Avenue Special Situations Fund V, L.P.	2007	300,000,000	300,000,000	96,952,380
Cerberus Institutional Partners, L.P. (Series 2)	2001	200,000,000	172,004,532	405,825,155
Cerberus Institutional Partners, L.P. (Series 3)	2003	100,000,000	81,000,000	61,701,490
Cerberus Institutional Partners, L.P. (Series 4)	2006	400,000,000	343,289,037	(284,722)
GSC Partners CDO Investors IV, L.P.	2003	80,000,000	80,000,000	72,192,000
GSC Recovery II, L.P.	2000	280,000,000	279,170,771	366,857,421
GSC Recovery III (Parallel Fund), L.P.	2005	200,000,000	198,335,300	66,113,294
Gleacher Mezzanine Fund II, L.P.	2006	100,000,000	45,039,120	11,951,311
Gleacher Mezzanine Fund, L.P.	2001	75,000,000	63,450,304	93,953,426
Gold Hill Venture Lending 03-A, L.P.	2004	50,000,000	50,000,000	36,117,062
NYLIM Mezzanine Partners (Parallel Fund) L.P.	2003	75,000,000	66,470,701	72,355,378
NYLIM Mezzanine Partners II (Parallel Fund) LP	2006	150,000,000	158,791,756	55,933,337
OCM Opportunities Fund VII L.P.	2007	75,000,000	75,000,000	22,500,759
OCM Opportunities Fund VII-b L.P.	2008	225,000,000	202,500,000	-
Versa Capital Fund I, L.P.	2005	75,000,000	78,375,000	43,997,362
Versa Capital Fund II, L.P.	2008	150,000,000	30,750,000	1,641,831
Windjammer Senior Equity Fund III, L.P.	2006	<u>50,000,000</u>	<u>26,555,876</u>	<u>14,081,698</u>
Total Private Debt		\$ 3,917,476,000	\$ 3,457,731,369	\$ 2,505,568,508
Grand Total		<u>\$21,077,923,080</u>	<u>\$16,530,455,174</u>	<u>\$12,418,211,626</u>

*Includes capital contributions for management fees, late interest, etc. that are not applied to the capital commitments.

Numbers may not add due to rounding.

**Summary of
PSERS' Cash Investments
(as of December 31, 2010)**

Cash represents one of eight major asset classes that PSERS uses to diversify the investments of the Fund. PSERS assigned one internal investment manager to management of the cash portfolio.

Policy

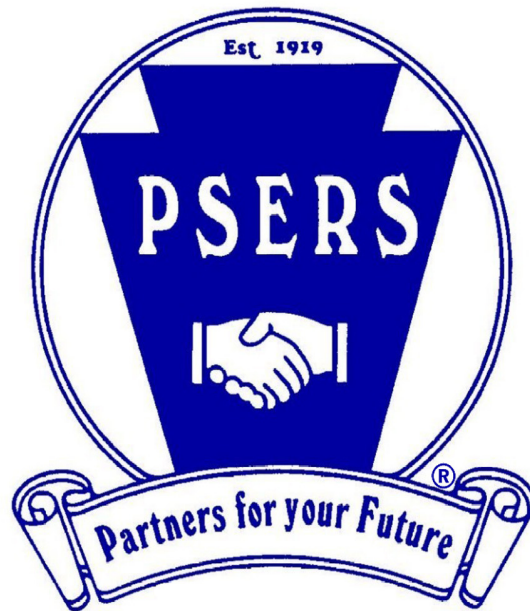
Cash investments are utilized by the Fund primarily to provide sufficient liquidity to meet its obligation to pay member benefits and capital commitments to private market and real estate investments. Cash investments are targeted to be 100% actively managed.

PSERS' Asset Allocation currently targets an allocation of 5.0% of assets to Cash investments.

Market Value as of December 31, 2010: \$3,303.1 million, or 6.7% of the Fund's total market value.

Number of External Investment Managers: None.

Number of Internal Investment Managers: PSERS had one employee managing a cash portfolio.



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Section 3 - Investment Information

**Summary of Investment Advisory Fees
Fiscal Year Ended June 30, 2010
(Dollar Amounts in Thousands)**

	<u>Fees</u>	<u>Basis Points</u>
External Management		
U.S. Equity	\$ 5,284	60
Non - U.S. Equity	32,162	41
Fixed Income	58,355	76
Commodities	14,736	77
Absolute Return	137,360	209
Real Estate	83,687	96
Alternative Investments	<u>178,183</u>	113
Total External Management	<u>509,767</u>	103
Total Internal Management	8,186 *	6
Total Investment Management	\$ <u>517,953</u>	81
Custodian Fees	598	
Investment Consultant Fees	3,764 *	
Total Investment Expenses	\$ <u>522,315</u>	82

* Amounts vary from those presented on Supplemental Schedule 2 of PSERS' financial statements due to an offsetting difference in the classification of certain expenses

**Investment Advisory Fees
Fiscal Years Ended June 30, 2005 - 2009
(Dollar Amounts in Thousands)**

<u>Fiscal Year</u>	<u>Fees</u>	<u>Basis Points</u>
2005	192,677	36
2006	211,279	35
2007	313,758	41
2008	399,136	47
2009	477,565	70

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands)

External Management fees are treated as a reduction of the investment revenue of the Fund rather than as a budgeted administrative expense.

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>U.S. Equity</u>			
AH Lisanti Capital Growth, LLC	New York	NY	\$ 118
Ativo Capital Management, L.L.C.	Chicago	IL	88
Biondo Group, L.L.C. (The)	Milford	PA	57
Conestoga Capital Advisors, Inc.	Radnor	PA	200
Donald Smith & Co., Inc.	New York	NY	429
Emerald Advisors, Inc.	Lancaster	PA	42
First Pacific Advisors, Inc.	Los Angeles	CA	1,708
EDMP, Inc.	Tampa	FL	150
Hanseatic Management Services, Inc.	Albuquerque	NM	154
Hellman, Jordan Management Company, Inc.	Boston	MA	154
NorthPointe Capital, L.L.C.	Troy	MI	499
Oberweis Asset Management, Inc.	North Aurora	IL	492
Opus Capital Management, Inc.	Cincinnati	OH	172
Thomson Horstmann & Bryant, Inc.	Saddle Brook	NJ	542
Turner Investment Partners, Inc.	Berwyn	PA	492
Wellington Management Company, L.L.P.	Boston	MA	(1)
William Blair & Company, L.L.C.	Chicago	IL	(12)
Total - U.S. Equity			5,284
<u>Non - U.S. Equity</u>			
Acadian Asset Management	Boston	MA	697
AXA Rosenberg Investment Management	Orinda	CA	557
Baillie Gifford Overseas Ltd.	Edinburgh	UK	1,842
BlackRock Financial Management, Inc.	San Francisco	CA	4,287
Batterymarch Financial Management, Inc.	Boston	MA	1,601
Boston Company Asset Management, L.L.C.	Boston	MA	1,141
GlobeFlex Capital, L.P.	San Diego	CA	585
John Hsu Capital Group, Inc.	New York	NY	253
Marathon Asset Management Limited	London	UK	1,508
Martin Currie, Inc.	Edinburgh	UK	1,095
Mercator Asset Management, L.P.	Ft. Lauderdale	FL	1,447
Munder Capital Management	Birmingham	MI	578

() Represents reversal of amount accrued in prior fiscal year.

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Non - U.S. Equity (continued)</u>			
Oberweis Asset Management, Inc.	North Aurora	IL	\$ 676
Pareto Investment Management, Ltd.	New York	NY	2,340
Pyramis Global Advisors	Boston	MA	789
Shah Capital Management, Inc.	Raleigh	NC	4,631
Templeton Investment Counsel, Inc.	Nassau	Bahamas	2,158
Victory Capital Management, Inc.	New York	NY	730
Wasatch Advisors, Inc.	Salt Lake City	UT	2,743
Wellington Management Company, L.L.P.	Boston	MA	1,069
Westwood Global Investments, L.L.C.	Boston	MA	425
William Blair & Company, L.L.C.	Chicago	IL	<u>1,010</u>
Total - Non - U.S. Equity			32,162
<u>Fixed Income</u>			
Aberdeen Asset Management, Inc.	Philadelphia	PA	785
BlackRock Financial Management, Inc.	New York	NY	11,921
BlackRock Mortgage (Offshore) Investors, L.P.	New York	NY	5,000
Bridgewater Associates, Inc.	Westport	CT	9,814
Brookfield Asset Management, Inc.	New York	NY	3,026
Fischer Francis Trees & Watts, Inc.	New York	NY	405
Franklin Templeton Investments	Nassau	Bahamas	2,020
LBC Credit Partners II, L.P.	Philadelphia	PA	4,643
MacKay-Shields Financial Corporation	New York	NY	1,532
Mariner Investment Group	Harrison	NY	559
Oaktree Loan Fund, L.P.	Los Angeles	CA	1,929
Pacific Investment Management Company (PIMCO)	Newport Beach	CA	684
Piedmont Investment Advisors	Durham	NC	48
Pugh Capital Management, Inc.	Seattle	WA	97
Rogge Global Partners	London	UK	484
Sankaty Advisors LLC Bank Loans	Wilmington	DE	2,623
Sankaty Credit Opportunities IV, L.P.	Wilmington	DE	8,258
Sankaty Middle Markets Opportunity Fund	Wilmington	DE	17
Stillwater Capital Partners, Inc.	New York	NY	183
Stone Harbor Investment Partners, L.P.	New York	NY	459
TCW Credit Opportunities Fund, L.P.	Dover	DE	1,674
TCW Mortgage	Dover	DE	1,537
Western Asset Management Company	Pasadena	CA	<u>657</u>
Total - Fixed Income			58,355

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Commodities</u>			
Credit Suisse Asset Management, L.L.C.	New York	NY	\$ 551
Deutsche Asset Management Americas, Inc.	New York	NY	3,331
Neuberger Berman Alternative Fund Mgmt., L.L.C.	New York	NY	2,937
Schroder Investment Management North America, Inc.	New York	NY	2,730
Wellington Management Company, L.L.P.	Boston	MA	<u>5,187</u>
Total - Commodities			14,736
<u>Absolute Return</u>			
Acorn Derivatives Management Corporation	White Plains	NY	600
AQR Capital Management, L.L.C.	Greenwich	CT	10,878
BlackRock Financial Management, Inc.	San Francisco	CA	23,955
Boston Company Asset Management, L.L.C.	Boston	MA	1,830
Brevan Howard Fund, Ltd.	George Town	Cayman Islands	953
Bridgewater Associates, Inc.	Westport	CT	18,570
Brigade Capital Management, L.L.C.	New York	NY	43,463
Denali Advisors, L.L.C.	San Diego	CA	224
First Quadrant, L.P.	Pasadena	CA	4,955
FX Concepts, Inc.	New York	NY	3,100
Harvest Fund Advisors, L.L.C.	Wayne	PA	440
Lazard Asset Management	New York	NY	2,853
Pacific Investment Management Company (PIMCO)	Newport Beach	CA	24,784
Pareto Investment Management, Ltd.	London	UK	316
Zacks Investment Management	Chicago	IL	<u>439</u>
Total - Absolute Return			137,360
<u>Real Estate-Publicly Traded</u>			
Cohen & Steers Capital Management, Inc.	New York	NY	342
E.I.I. Realty Securities Corporation, Inc.	New York	NY	747
LaSalle Investment Management (Securities), L.P.	Baltimore	MD	211
Morgan Stanley Investment Management, Inc.	New York	NY	1,103
Security Capital Research & Management, Inc.	Chicago	IL	<u>284</u>
Subtotal - Real Estate-Publicly Traded			2,687

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Real Estate-Direct Ownership</u>			
Charter Oak Advisors, Inc.	King of Prussia	PA	\$ 784
GF Management, Inc.	Philadelphia	PA	131
Grandbridge Real Estate Capital, L.L.C.	Charlotte	NC	5
Grosvenor Investment Management U.S., Inc.	Philadelphia	PA	21
L & B Realty Advisors, L.L.P.	Dallas	TX	12
Subtotal - Real Estate-Direct Ownership			953
<u>Real Estate-Partnerships/Funds</u>			
Apollo European Real Estate Fund III, L.P.	Purchase	NY	1,005
Apollo Real Estate Finance Corporation	New York	NY	1,472
AREFIN Co-Invest Corporation	New York	NY	58
AvalonBay Value Added Fund II, L.P.	Alexandria	VA	(1,047)
AvalonBay Value Added Fund, L.P.	Alexandria	VA	868
Avenue Real Estate Fund Parallel, L.P.	New York	NY	1,250
Beacon Capital Strategic Partners V, L.P.	Boston	MA	2,358
Berwind Investment Partnership V, L.P.	Philadelphia	PA	176
Berwind Investment Partnership VI, L.P.	Philadelphia	PA	336
Blackstone Real Estate Partners Europe III, L.P.	New York	NY	3,434
Blackstone Real Estate Partners V.TE.1, L.P.	New York	NY	1,872
Blackstone Real Estate Partners VI.TE.1, L.P.	New York	NY	4,938
BPG Co-Investment Partnership, L.P.	Philadelphia	PA	188
Broadway Partners Parallel Fund P II, L.P.	New York	NY	525
Broadway Partners Parallel Fund P III, L.P.	New York	NY	1,386
Cabot Industrial Value Fund III, L.P.	Boston	MA	1,051
Carlyle Europe Real Estate Partners III-A, L.P.	Washington	DC	2,738
Carlyle Realty Partners III, L.P.	Washington	DC	162
Carlyle Realty Partners IV, L.P.	Washington	DC	1,102
Carlyle Realty Partners V, L.P.	Washington	DC	3,000
Centerline Diversified Risk CMBS Fund II, L.L.C.	Irving	TX	344
Centerline High Yield CMBS Fund III, L.L.C.	Irving	TX	1,522
Centerline RE Special Situations Mortgage Fund, L.L.C.	Irving	TX	1,339
Cornerstone Patriot Fund, L.P.	Hartford	CT	613
CS Strategic Partners IV RE, L.P.	New York	NY	563
CSFB Strategic Partners II RE, L.P.	New York	NY	192

() Represents reversal of amount accrued for prior fiscal year.

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Real Estate-Partnerships/Funds (continued)</u>			
CSFB Strategic Partners III RE, L.P.	New York	NY	\$ 600
DLJ Real Estate Capital Partners II, L.P.	New York	NY	213
DLJ Real Estate Capital Partners III, L.P.	New York	NY	1,229
DLJ Real Estate Capital Partners IV, L.P.	New York	NY	3,125
DRA Growth and Income Fund VI, L.P.	New York	NY	2,509
Fillmore West Fund, L.P.	San Francisco	CA	1,250
Five Arrows Realty Securities V, L.P.	New York	NY	1,063
Fortress Investment Fund IV, L.P.	New York	NY	567
Fortress Investment Fund V (Fund A), L.P.	New York	NY	1,999
Fortress/PSERS Investment, L.P.	New York	NY	68
Hines U.S. Office Value Added Fund, L.P.	Houston	TX	594
JPMCB Strategic Property Fund	New York	NY	160
Legg Mason Real Estate Capital II, Inc.	Los Angeles	CA	1,188
Legg Mason Real Estate Capital, Inc.	Los Angeles	CA	141
Lehman Brothers Real Estate Pension Partners II, L.P.	New York	NY	1,358
Lehman Brothers Real Estate Pension Partners III, L.P.	New York	NY	1,831
Lehman Brothers/PSERS Real Estate, L.P.	New York	NY	908
LEM Real Estate Mezzanine Fund II, L.P.	Philadelphia	PA	938
LF Strategic Realty Investors II, L.L.C.	New York	NY	834
Lubert-Adler Real Estate Fund II, L.P.	Philadelphia	PA	18
Madison Marquette Retail Enhancement Fund, L.P.	Washington	DC	1,143
MGPA Asia Fund III, L.P.	Hamilton	Bermuda	2,274
MGPA Europe Fund III, L.P.	London	UK	2,054
Morgan Stanley Real Estate Fund IV Special Dom., L.P.	New York	NY	186
Morgan Stanley Real Estate Fund IV Special Int'l, L.P.	New York	NY	232
Morgan Stanley Real Estate Fund V Special Int'l, L.P.	New York	NY	1,300
Morgan Stanley Real Estate Fund V Special U.S., L.P.	New York	NY	539
Morgan Stanley Real Estate Fund VI Special Int'l, L.P.	New York	NY	2,853
O' Connor North American Property Partners, L.P.	New York	NY	1,163
O'Connor North American Property Partners II, L.P.	New York	NY	1,644
Paladin Realty Latin America Investors III, L.P.	Los Angeles	CA	2,048
Peabody Global Real Estate Partners, L.P.	New York	NY	151
Prime Property Fund, L.L.C.	New York	NY	290
PRISA	Parsippany	NJ	653
ProLogis North American Industrial Fund, L.P.	Denver	CO	1,548
RCG Longview Debt Fund IV, L.P.	New York	NY	1,780

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Real Estate-Partnerships/Funds (continued)</u>			
RCG Longview Equity Fund, L.P.	New York	NY	\$ 975
RREEF America REIT II, Inc.	Chicago	IL	37
Stockbridge Real Estate Fund II, L.P.	New York	NY	1,495
Stockbridge Real Estate Fund III, L.P.	New York	NY	1,994
Stockbridge Real Estate Fund, L.P.	New York	NY	1,779
Strategic Partners Value Enhancement Fund, L.P.	Los Angeles	CA	812
UBS RESA	Hartford	CT	483
Whitehall Street Real Estate L.P. VII & VIII	New York	NY	11
William E. Simon & Sons Realty Partners, L.P.	Los Angeles	CA	414
Subtotal - Real Estate-Partnerships/Funds			79,896
<u>Real Estate-Farmland</u>			
Prudential Agricultural Group	Lisle	IL	151
Subtotal - Real Estate-Farmland			151
Total Real Estate			83,687
<u>Private Equity</u>			
ABS Capital Partners II, L.P.	Baltimore	MD	10
Actis Emerging Markets 3, L.P.	London	UK	4,000
Allegheny New Mountain Partners, L.P.	New York	NY	786
Apax Europe VII-B, L.P.	St. Peter Port	Guernsey	3,172
Baring Asia Private Equity Fund III, L.P.	Hong Kong	China	2,187
Baring Asia Private Equity Fund IV, L.P.	Hong Kong	China	5,780
Blue Point Capital Partners (B), LP	Cleveland	OH	59
Blue Point Capital Partners II (B), LP	Cleveland	OH	1,024
Bridgepoint Europe IIA, L.P.	London	UK	1,096
Bridgepoint Europe IIIA, L.P.	London	UK	1,834
Bridgepoint Europe IV, L.P.	London	UK	6,141
Capital International Private Equity Fund V, L.P.	San Francisco	CA	3,000
Catterton Growth Partners, L.P.	Greenwich	CT	1,309
Catterton Partners V, L.P.	Greenwich	CT	847
Catterton Partners VI, L.P.	Greenwich	CT	2,120
Cinven Fund (Fourth), L.P. (The)	London	UK	2,993
Clarity Partners II, L.P.	Beverly Hills	CA	348

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
Private Equity (continued)			
Clarity Partners, L.P.	Beverly Hills	CA	\$ 1,639
Credit Suisse First Boston Equity Partners, L.P.	New York	NY	36
Credit Suisse First Boston Int'l Equity Partners, L.P.	New York	NY	27
Crestview Capital Partners, L.P.	New York	NY	2,778
Crestview Partners II (PF), L.P.	New York	NY	3,661
CS Strategic Partners IV, L.P.	New York	NY	750
CSFB Strategic Partners II, L.P.	New York	NY	779
CSFB Strategic Partners III-B, L.P.	New York	NY	500
CVC Capital Partners Asia III Pacific, L.P.	George Town	Cayman Islands	4,277
CVC European Equity Partners V (A), L.P.	George Town	Cayman Islands	2,852
DLJ Merchant Banking Partners III, L.P.	New York	NY	955
DLJ Strategic Partners, L.P.	New York	NY	500
Edgewater Growth Capital Partners, LP	Chicago	IL	273
Edgewater Private Equity Fund III, L.P.	Chicago	IL	226
Evergreen Pacific Partners II, L.P.	Seattle	WA	1,500
Evergreen Pacific Partners, L.P.	Seattle	WA	(56)
First Reserve Fund XI, L.P.	Greenwich	CT	1,188
First Reserve Fund XII, L.P.	Greenwich	CT	2,786
Furman Selz Investors II, L.P.	New York	NY	42
Furman Selz Investors III, L.P.	New York	NY	(10)
Graham Partners Investments (B), L.P.	Newtown Square	PA	150
Greenpark International Investors III, L.P.	London	UK	1,495
Greenwich Street Capital Partners II, L.P.	New York	NY	83
HSBC Private Equity Fund 6, L.P.	George Town	Cayman Islands	3,590
Irving Place Capital Partners III, L.P.	New York	NY	2,503
Jefferies Capital Partners IV, L.P.	New York	NY	1,667
KKR 2006 Fund, LP	New York	NY	3,406
KRG Capital Fund IV (PA), L.P.	Denver	CO	3,503
Landmark Equity Partners XIII, L.P.	Simsbury	CT	1,000
Landmark Equity Partners XIV, L.P.	Wilmington	DE	1,476
Landmark Mezzanine Partners, L.P.	Simsbury	CT	14
Lehman Brothers Merchant Banking Partners II, L.P.	New York	NY	55
Lindsay Goldberg & Bessemer, L.P.	New York	NY	844
Milestone Partners III, L.P.	Rosemont	PA	314
Morgan Stanley Dean Witter Capital Partners IV, L.P.	New York	NY	221
Navis Asia Fund V, L.P.	Kuala Lumpur	Malaysia	951

() Represents reversal of amount accrued in prior fiscal year.

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Private Equity (continued)</u>			
New Mountain Partners III, L.P.	New York	NY	\$ 4,426
New Mountain Partners, L.P.	New York	NY	424
New York Life Capital Partners I, L.P.	New York	NY	240
New York Life Capital Partners II, L.P.	New York	NY	525
New York Life Capital Partners III, L.P.	New York	NY	2,000
New York Life Capital Partners IV, L.P.	New York	NY	1,500
Nordic Capital VII Beta L.P.	St. Helier	Guernsey	3,326
PAI Europe III, L.P.	Paris	France	891
PAI Europe IV, L.P.	Paris	France	1,121
PAI Europe V, L.P.	St. Peter Port	Guernsey	3,126
Palladium Equity Partners II-A, LLC	New York	NY	181
Partners Group Secondary 2008, L.P.	St. Peter Port	Guernsey	2,567
Permira IV, L.P. 2	London	UK	2,119
Platinum Equity Capital Partners II, L.P.	Los Angeles	CA	163
PNC Equity Partners II, L.P.	Pittsburgh	PA	660
PNC Equity Partners, L.P.	Pittsburgh	PA	74
Providence Equity Partners VI, L.P.	Providence	RI	4,008
Quadrangle Capital Partners I, L.P.	New York	NY	1,183
Quadrangle Capital Partners II, L.P.	New York	NY	3,208
Sterling Capital Partners, L.P.	Northbrook	IL	437
TPG Partners V, L.P.	Fort Worth	TX	186
TPG Partners VI, L.P.	Fort Worth	TX	4,602
Trilantic Capital Partners IV, L.P.	New York	NY	1,095
US Equity Partners II, L.P.	New York	NY	916
Wicks Communications & Media Partners L.P.	New York	NY	661
Subtotal - Private Equity			122,320
<u>Private Debt</u>			
Avenue Asia Special Situations Fund III, L.P.	New York	NY	291
Avenue Asia Special Situations Fund IV, L.P.	New York	NY	4,500
Avenue Europe Special Situations Fund, L.P.	New York	NY	4,107
Avenue Special Situations Fund IV, L.P.	New York	NY	1,278
Avenue Special Situations Fund V, L.P.	New York	NY	3,750
Cerberus Institutional Partners, L.P. (Series Four)	New York	NY	6,000
Cerberus Institutional Partners, L.P. (Series Three)	New York	NY	740

Section 3 - Investment Information

Investment Managers' Fees Fiscal Year Ended June 30, 2010 (Dollar Amounts in Thousands) (continued)

<u>Manager</u>	<u>Location</u>		<u>Amount</u>
<u>Private Debt (continued)</u>			
Cerberus Institutional Partners, L.P. (Series Two)	New York	NY	\$ 388
Gleacher Mezzanine Fund II, L.P.	New York	NY	1,287
Gleacher Mezzanine Fund, L.P.	New York	NY	77
Gold Hill Venture Lending 03-A, L.P.	Santa Clara	CA	362
GSC Partners CDO Investors IV, L.P.	New York	NY	1,676
GSC Recovery III, L.P.	New York	NY	2,122
NYLIM Mezzanine Partners Parallel Fund II, L.P.	New York	NY	1,875
NYLIM Mezzanine Partners Parallel Fund, L.P.	New York	NY	250
OCM Opportunities Fund VII, L.P.	Los Angeles	CA	1,144
OCM Opportunities Fund VII-B, L.P.	Los Angeles	CA	3,370
Versa Capital Fund, L.P.	Philadelphia	PA	339
Versa Capital Fund II, L.P.	Philadelphia	PA	2,164
Windjammer Senior Equity Fund III, L.P.	Newport Beach	CA	742
Subtotal - Private Debt			36,462
<u>Venture Capital</u>			
Aisling Capital II, L.P.	New York	NY	399
Aisling Capital III, L.P.	New York	NY	912
Co-Investment 2000 Fund, L.P. (The)	Radnor	PA	253
Co-Investment Fund II, L.P. (The)	Radnor	PA	1,825
Cross Atlantic Technology Fund II, L.P.	Radnor	PA	72
Cross Atlantic Technology Fund, L.P.	Radnor	PA	68
CS Strategic Partners IV VC, L.P.	New York	NY	375
CSFB Strategic Partners III-VC, L.P.	New York	NY	386
Franklin Capital Associates III, L.P.	Franklin	TN	86
Jefferson Partners Fund IV (PA), L.P.	Toronto	Canada	324
KBL Partnership, L.P.	New York	NY	246
LLR Equity Partners II, L.P.	Philadelphia	PA	958
LLR Equity Partners III, L.P.	Philadelphia	PA	3,092
LLR Equity Partners, L.P.	Philadelphia	PA	239
Novitas Capital II, L.P.	Wayne	PA	750
Novitas Capital, L.P.	Wayne	PA	116
Perseus-Soros BioPharmaceutical Fund, L.P.	New York	NY	639
Psilos Group Partners III, L.P.	New York	NY	1,006
Quaker BioVentures II, L.P.	Philadelphia	PA	1,869

Section 3 - Investment Information

**Investment Managers' Fees
Fiscal Year Ended June 30, 2010
(Dollar Amounts in Thousands)
(continued)**

<u>Manager</u>	<u>Location</u>	<u>Amount</u>
<u>Venture Capital (continued)</u>		
Quaker BioVentures, L.P.	Philadelphia PA	1,407
SCP Private Equity Partners II, L.P.	Wayne PA	1,085
Starvest Partners II, L.P.	New York NY	998
Sterling Venture Partners, L.P.	Baltimore MD	284
Tenaya Capital IV-P, LP	New York NY	699
Tenaya Capital V-P, LP	New York NY	<u>1,313</u>
Subtotal - Venture Capital		19,401
Total Alternative Investments		
		178,183
Total External Management		
		509,767
Total Internal Management		
		<u>8,186</u> **
Total Investment Management		
		\$ <u>517,953</u>

**Internal Management fees include salaries and fringe benefits of \$4,441 and operating expenses of \$3,745.



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Internal Equity Trading Desk

One of the benefits of managing a significant amount of assets internally is that PSERS can have its own trading desk. A majority of the U.S. equity trades for the Fund are executed by PSERS' internal trading desk. The internal U.S. equity managers as well as a number of the external U.S. equity managers utilize the trading desk to execute trades. The objectives of PSERS' internal trading desk include:

- to obtain best execution;
- to pay the lowest possible commissions consistent with obtaining best execution; and
- to provide market information/data to portfolio managers

The trading desk provides PSERS with access to information on the markets from sell-side brokers and monitoring business news services which helps in the management of

the investments of the Fund. The trading desk also provides portfolio transition management services to the System. When portfolio managers are terminated, the trading desk handles the liquidation of the portfolio or the transition from one portfolio manager to another, minimizing the costs of those transitions.

The order flow generated by the trading desk provides the System with access to initial public offerings (IPOs). This can be a source of incremental returns since most IPOs generally trade higher after being issued. This IPO access generated \$558,821 in profits for PSERS during the calendar year ending December 31, 2010.

PSERS' trading desk executed approximately 14,700 U.S. and Non-U.S. orders for the purchase and sale of stock, currency, futures, and options during the fiscal year ended June 30, 2010. The total dollar amount of U.S. and Non-U.S. orders traded during the fiscal year ended June 30, 2010, was approximately \$19.3 billion.



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**PSERS' Public Market
Emerging Investment Manager
(PMEIM) Program
(as of December 31, 2010)**

The Public Market Emerging Investment Manager (PMEIM) Program is a sub-section of PSERS' U.S. Equity, Non-U.S. Equity, Absolute Return, and Fixed Income investment classes.

Policy

Consistent with its fiduciary responsibilities, the Board has established the PMEIM Program to:

1. locate and fund managers with successful histories of generating positive alpha with risk commensurate with the alpha generated (positive risk adjusted returns);
2. provide a source of potential managers for the main fund; and
3. assist public market emerging investment management firms grow through the use of the System's name in the managers' marketing efforts.

The Board has allocated up to \$1 billion to the PMEIM Program. Funding for each investment manager will come from assets allocated within the main fund similar to or most closely related to the investment manager's mandate. The maximum number of investment managers in the program at any one time shall not exceed 25. The program may run with less than 25 investment managers.

Investment managers desiring to participate in the program must meet the following required criteria:

- Firms must be registered under the Investment Advisors Act of 1940 or be exempt therefrom (and will maintain such registration or exemption);
- Firms must provide transparency of positions and transactions;

- Firms must provide at least monthly liquidity;
- Firms, the portfolio manager, or any combination thereof must have a three-year historical, performance record verified by at least one consultant or accounting firm in accordance with the Global Investment Performance Standards (GIPS);
- Firms must have no more than \$1.5 billion of total assets under management when hired (existing investment managers will be terminated within a reasonable period of time from the PMEIM Program when the total assets under management exceeds \$3.0 billion); and
- For performance based fee accounts, the managers must have a hurdle rate and they must exceed this rate to earn the performance-based fee.

Preference will be given to investment managers deemed as able to meet the objectives, goals, and required criteria noted above plus having one or more of the following characteristics:

- Pennsylvania investment management firms headquartered or incorporated within the Commonwealth; and/or
- Minority and/or women-owned investment management firms approved by the Office of Minority and Women Business Enterprise in accordance with the criteria established by Executive Order No. 1987-18 and 4 Pennsylvania Code, Section 68.204.

Market Value as of December 31, 2010: \$711.3 million or 1.44% of the total market value of the Fund.

Number of External Investment Managers: PSERS had contracts with 13 external investment managers in the PMEIM Program.

Section 3 - Investment Information

PSERS' PMEIM Investment Managers (as of December 31, 2010) (Dollar Amounts in Millions) (unaudited)

<i>External Manager</i>	<i>Market Value</i>
EDMP, Inc.	\$ 50.4
Denali Advisors, LLC	38.1
Conestoga Capital Advisors, Inc.	60.3
Hellman, Jordan Management Co., Inc.	35.8
AH Lisanti Capital Growth, LLC	36.2
Harvest Fund Advisors, LLC	82.9
Westwood Global Investments, LLC	72.9
Ativo Capital Management, Inc.	22.2
Opus Capital Management, Inc.	65.1
John Hsu Capital Group, Inc.	83.0
Shah Capital Management, Inc.	70.9
Pugh Capital Management, Inc.	47.6
Piedmont Investment Advisors	<u>45.9</u>
Total PSERS' PMEIM Portfolios	\$ <u>711.3</u>

PSERS' PMEIM Program Minority/Women - Owned Investment Managers (as of December 31, 2010) (Dollar Amounts in Millions) (unaudited)

The following nine minority-owned or women-owned firms were under contract with PSERS to provide investment management services as of December 31, 2010:

<i>External Manager</i>		<i>Market Value</i>
EDMP, Inc.	Women-owned	\$ 50.4
AH Lisanti Capital Growth, LLC	Women-owned	36.2
Ativo Capital Management, LLC	Minority-owned	22.2
Denali Advisors, LLC	Minority-owned	38.1
John Hsu Capital Group, Inc.	Minority-owned	83.0
Opus Capital Management, Inc.	Minority-owned	65.1
Piedmont Investment Advisors	Minority-owned	45.9
Pugh Capital Management, Inc.	Minority-owned	47.6
Shah Capital Management, Inc.	Minority-owned	<u>70.9</u>
Total PSERS' PMEIM Minority/Women - Owned Portfolios		\$ <u>459.4</u>

Numbers may not add due to rounding.

Section 4 - Commitment to Pennsylvania





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Commitment to Pennsylvania-Based Investment Managers (as of December 31, 2010)

As noted previously, the members of the Board and Staff are fiduciaries and must act solely in the interests of the members of the System and for the exclusive benefit of the System’s members. In creating the investment program, the Board hires external investment managers and internal investment managers. The Board has determined that it is in the best interest of the System to manage assets internally when (1) the System’s staff has the proven ability to internally manage portfolios at least as well as the external investment managers, and (2) the cost of investing those assets is no greater than the cost that would have been incurred to have those assets externally managed. The Board will also consider the diversification benefits that may be achieved by allocating assets to external portfolio managers even when conditions (1) and (2) are met.

The Board evaluates external managers based on a variety of factors, including, (1) their expected future performance; (2) their investment philosophy and style; (3) their investment process; (4) their personnel; (5) cost; and (6) how their philosophy and style fits in with the existing investment structure. In selecting external managers, PSERS will show preference to Pennsylvania-based potential managers that demonstrate similar strengths to alternative managers without a Pennsylvania nexus.

PSERS has shown a tremendous commitment to Pennsylvania’s financial services industry by having assets managed by firms based in Pennsylvania or by firms with offices in Pennsylvania. The following is a list of both the assets managed internally by PSERS and externally from offices located in Pennsylvania, as of December 31, 2010:

<i>Pennsylvania-Based Manager</i>	<i>Market Value (in millions)</i>	<i>Percentage of the Fund</i>
Internal Management		
US. Equity:		
S&P 500 Index	\$ 4,997.7	10.1%
S&P 400 Index	440.5	0.9%
S&P 600 Index	379.2	0.8%
Non-U.S. Equity:		
ACW ex-U.S. Index	5,126.8	10.4%
World X-U.S. Small Cap	238.3	0.5%
Emerging Markets Index	305.8	0.6%
Fixed Income:		
PSERS TIPS	1,536.4	3.1%
PSERS Active Aggregate	1,210.7	2.5%
Cash & Cash Equivalents:		
STIF	<u>2,121.2</u>	4.3%
Total Internal Management	16,356.6	33.2%
External Management		
U.S. Equity:		
Conestoga Capital Advisors	60.2	0.1%
Fixed Income:		
LBC Credit Partners II, LP	97.0	0.2%
Real Estate:		
BPG Co-Investment Partnership, LP	18.4	0.0%
Berwind Investment Partnership VI, LP	27.7	0.1%
Berwind Investment Partnership V, LP	17.2	0.0%
Charter Oak Advisors, Inc.	83.2	0.2%

Section 4 - Commitment to Pennsylvania

Commitment to Pennsylvania-Based Investment Managers
(as of December 31, 2010)
(continued)

<i>Pennsylvania-Based Manager</i>	<i>Market Value (in millions)</i>	<i>Percentage of the Fund</i>
Real Estate (continued)		
GF Management, Inc.	\$ 59.5	0.1%
Grosvenor Investment Mgmt. U.S., Inc.	8.4	0.0%
LEM Real Estate Mezzanine Fund II, LP	39.3	0.1%
Lubert-Adler Real Estate Fund III, LP	5.4	0.0%
Lubert-Adler Real Estate Fund IV, LP	23.0	0.0%
Lubert-Adler Real Estate Fund V, LP	44.4	0.1%
Lubert-Adler Real Estate Fund VI, LP	56.1	0.1%
Private Equity and Debt:		
Graham Partners, LP	26.1	0.1%
Milestone Partners II, LP	18.9	0.0%
Milestone Partners III, LP	44.4	0.1%
PNC Equity Partners I, LP	9.2	0.0%
PNC Equity Partners II, LP	41.7	0.1%
Versa Capital Fund I, LP	86.3	0.2%
Versa Capital Fund II, LP	24.6	0.0%
Venture Capital:		
Adams Capital Management, LP	1.7	0.0%
Co-Investment Fund 2000, LP	78.7	0.2%
Co-Investment Fund II, LP	66.0	0.1%
Cross Atlantic Technology Fund, LP	10.3	0.0%
Cross Atlantic Technology Fund II, LP	15.6	0.0%
LLR Equity Partners, LP	10.0	0.0%
LLR Equity Partners II, LP	59.0	0.1%
LLR Equity Partners III, LP	56.4	0.1%
NEPA Venture Fund II, LP	1.1	0.0%
Novitas Capital, LP	1.0	0.0%
Novitas Capital II, LP	11.5	0.0%
P/A Fund, LP	0.6	0.0%
Quaker BioVentures, LP	28.9	0.1%
Quaker BioVentures II, LP	34.4	0.1%
SCP Private Equity Partners, LP	0.2	0.0%
SCP Private Equity Partners II, LP	70.4	0.1%
TDH III, LP	0.3	0.0%
Total External Management	1,237.1	2.5%
Total Investment Portfolios Managed in PA	\$ <u>17,593.7</u>	35.7%

In FY 2010, investment manager fees paid to external firms managing PSERS' assets from offices located in Pennsylvania amounted to \$24.7 million, or 4.8% of the total external investment manager fees.

**Summary of Investments in Pennsylvania
(as of December 31, 2010)**

Where investment characteristics including yield, risk, and liquidity are equivalent, the Board’s policy favors investments that have a positive impact on the economy of Pennsylvania. The Board, in managing the investment portfolio, will also be cognizant of concentration risk to any one region, including Pennsylvania. The Fund will continue to seek investments in Pennsylvania-based companies when the investment characteristics are equivalent to other favorable investments, subject to diversification considerations.

The following is a table of Pennsylvania-based investments and other statistics at December 31, 2010 (\$’s in millions):

<i>Asset Class</i>	<i>Total PA Market Value (PSERS’ Portion)</i>	<i>Total PA Market Value (Total Invested)</i>	<i># of People Employed</i>	<i>Payroll</i>
U.S. Equities	\$ 165.7	\$ 165.7	*	\$ *
Fixed Income	80.9	80.9	*	*
Private Real Estate	243.9	2,730.3	1,225	29.7
Private Markets:				
Venture Capital	184.6	648.7	6,445	232.1
Private Equity	930.3	17,961.7	35,001	923.1
Private Debt	324.0	5,592.3	13,862	644.8
Total	\$ 1,929.4	\$ 27,179.6	56,533	\$ 1,829.7

* Statistics for publicly traded companies not included due to the difficulty in obtaining the information.

U.S. Equities

PSERS invests in the stock of Pennsylvania-based companies through the various U.S. Equity portfolios managed by external and internal portfolio managers. PSERS has always had substantial investments in large national firms located in Pennsylvania, a list of which is included later in this section.

Fixed Income Securities

PSERS invests in the debt of Pennsylvania-based companies through the various Fixed Income portfolios managed by external and internal portfolio managers. PSERS has always had substantial investments in large national firms located in Pennsylvania, a list of which is included later in this section.

Private Real Estate

PSERS’ Private Real Estate Program has investments in limited partnerships that have invested in Pennsylvania real estate properties. PSERS has committed \$237.5 million in

three funds (Fund V, Fund VI, and a Co-Investment Fund) managed by BPG Properties, Ltd., located in Philadelphia. PSERS has committed \$550 million in five funds (Lubert-Adler Funds II, III, IV, V and VI) managed by Lubert-Adler, another Pennsylvania-based real estate manager. Finally, PSERS has committed \$75 million in one fund (LEM Real Estate Mezzanine Fund II) managed by LEM Mezzanine Partners, located in Philadelphia.

As of December 31, 2010, PSERS’ Pennsylvania real estate portfolio contained 24.4 million square feet of office, retail, and warehouse space and 174,453 apartment, hotel and condominium units. The gross market value of the Pennsylvania real estate portfolio investments totaled \$2.7 billion, of which PSERS’ ownership share was \$243.9 million. The portfolio contains numerous notable Pennsylvania real estate investments, including:

- 5 North Fifth Street - PSERS owns a 100% interest in this major downtown Harrisburg, PA, office building that contains 70,693 square feet of office space. The building is PSERS’ headquarters and is fully occupied by PSERS.
- King of Prussia Business Center - This office building is located in King of Prussia, PA. The King of Prussia Business Center contains approximately 175,000 square feet in 14 buildings on 12.5 acres. The King of Prussia Market is the largest suburban office market in the Philadelphia region and is in close proximity to most of the region’s primary highways. This investment was made by BPG Investment Partnership V.
- The National at Old City – This condominium complex is located in Philadelphia, PA. The National at Old City consists of 153 units and contains 208,919 square feet of condominium space. This investment was made by Lehman Brothers Real Estate Pension Partners II.

**Summary of Investments in Pennsylvania
(as of December 31, 2010)
(continued)**

- Kenmawr – This investment is a part of a long-term joint venture relationship between Lubert-Adler and Philadelphia Management and Companies (PMC) that specializes in adaptive re-use of vacant buildings into stable, high quality rental apartments within and outside of Pennsylvania. The Kenmawr investment is located in Pittsburgh, PA and consists of 206 apartment units and 44 commercial units. The Kenmawr investment was made in Lubert-Adler Real Estate Funds V and VI.
- Brandywine Office Portfolio – The Brandywine Office Portfolio consists of 29 properties totaling 1.6 million square feet and is located in the Lehigh Valley. This investment was made by DRA Growth and Income Fund VI.

Venture Capital

PSERS' Venture Capital Program has committed \$2.2 billion to 50 partnerships since the inception of the program. In addition to the current international scope of venture capital investments, a historical objective of this program has been to target partnerships that demonstrate an ability to invest in Pennsylvania-based companies. Selected partnerships offer diversification according to geographic region and financing stage within Pennsylvania. From the inception of this program to December 31, 2010, 25 of the 50 venture capital partnerships were headquartered in Pennsylvania.

PSERS is generally the lead investor in many of the venture capital funds in which PSERS invests. As a lead investor, PSERS provides Pennsylvania with capital from numerous out-of-state investors. As of December 31, 2010, PSERS' Venture Capital partnerships invested in 96 Pennsylvania locations employing approximately 6,400 employees with a combined payroll of \$232.1 million. The market value of these investments is \$648.7 million, of which PSERS' share is \$184.6 million.

A key objective of PSERS' Venture Capital Program is to attract both national and regional funds into the Pennsylvania small business community. Venture capital investments serve to accelerate economic growth in both the business sector and the community due to an increase in employment and revenues within the Commonwealth. Following are a sample of Pennsylvania companies invested in by PSERS through the Venture Capital program:

- E-Duction, Inc., Blue Bell, PA - E-Duction was launched to capitalize on a growing trend that has emerged in payment technology - payroll deduction. In 2002, E-Duction introduced the first payroll

deduction card that gives employees interest-free purchasing power, 365 days per year. Employees purchase goods and services, at no interest, everywhere credit cards are accepted. Payments are deducted over a series of paychecks. E-Duction earns income from annual card member fees, interchange fees from every transaction, and preferred merchant promotional fees. Novitas Capital made this investment.

- Garnet BioTherapeutics, Inc. (formerly Neuronix, Inc.), Malvern, PA - Garnet is a clinical state biotechnology company focused on applications with stem cells derived from adult bone marrow. Garnet uses genetically modified cells for specific applications in the development of neuroprotective agents for use in the treatment of major diseases. Garnet has developed a proprietary process for isolating and expanding adult bone marrow stem cells to provide extremely large, homogeneous populations with desirable therapeutic characteristics. Novitas Capital made this investment.
- PetFood Direct, Montgomeryville, PA - PetFood Direct is one of the largest online retailers of pet food and related products. With over 11,000 products and 400 brands, the Company meets the needs of pet owners by offering selection, discount prices and convenient delivery. The Company also provides value-added services for its customers, including an auto-ship program and information on pet healthcare and nutrition. LLR Equity Partners made this investment.
- Amkor Technology, Inc., West Chester, PA - Amkor is one of the world's largest subcontractors of semiconductor packaging and test services. The semiconductors that Amkor packages and tests ultimately become components in electronic systems used in communications, computing, consumer, industrial and automotive applications. Amkor maintains production facilities in China, Korea, Japan, the Philippines and the US, and has long-standing relations with a broad spectrum of major semiconductor manufacturers including IBM, Intel Corp, Samsung and Texas Instruments. SCP Private Equity Partners made this investment.

Private Equity

PSERS Private Equity Program has committed \$15.6 billion to 104 partnerships since the inception of the program. PSERS is the lead investor in many of the private equity funds in which it invests. As a lead investor, PSERS provides Pennsylvania with capital from numerous out-of-state investors. As of December 31, 2010, PSERS' Private Equity partnerships invested in approximately 1,000 Pennsylvania locations employing approximately 35,000 employees with a combined payroll of \$923.1 million. The

Summary of Investments in Pennsylvania (as of December 31, 2010) (continued)

market value of these investments is \$18.0 billion, of which PSERS' share is \$930.3 million. From the inception of this program to December 31, 2010, 5 of the 104 partnerships were headquartered in Pennsylvania.

The following companies are a sample of Pennsylvania investments funded through PSERS' private equity partnerships:

- AirClic, Newtown, PA – AirClic is a global provider of mobile software products that improve the performance of an organization's supply chain, logistics and field services operations. The company has more than 500 global customers across multiple vertical markets. Using AirClic-enabled wireless devices, managers and workers can easily and economically capture, exchange, and access critical data that represent people, assets and activity. AirClic is driving new levels of accountability and improved customer service for many of the world's leading companies. Edgewater Private Equity Fund III made this investment.
- CODi, Inc., Harrisburg, PA – CODi, Inc. is a provider of lightweight, high-quality laptop computer cases and information technology accessories to Fortune 500 companies. CODi's accumulated knowledge dealing with the "corporate road warrior" allows the company to uniquely service corporate and consumer needs with precision. CODi uses a direct sales force to its competitive advantage, allowing a one-stop solution for customers in a market where distributors and value-added resellers are the norm. This one-stop approach allows high profitability as it captures up to three levels of contributions margins. The investment was brought about through Milestone Partners II.
- EnerSys, Inc., Reading, PA - EnerSys, (NYSE: ENS) the world leader in stored energy solutions for industrial applications, manufactures and distributes reserve power and motive power batteries, chargers, power equipment, and battery accessories to customers worldwide. Motive power batteries are utilized in electric forklift trucks and other commercial electric powered vehicles. Reserve power batteries are used in the telecommunication and utility industries, uninterruptible power supplies, and numerous applications requiring standby power. The company also provides aftermarket and customer support services to its customers in over 100 countries through its sales and manufacturing locations around the world. Morgan Stanley Dean Witter Capital Partners IV made this investment.
- Gorell Enterprises, Indiana, PA - Gorell Enterprises is a manufacturer of specially engineered, custom-manufactured vinyl windows for replacement and new-construction applications, patio doors, aluminum storm windows and doors, sunrooms, and conservatories. Gorell is well known in the industry for placing strong emphasis on designing and manufacturing strong, durable high-quality products. Gorell was the national winner of the 2006 ENERGY STAR® "Sustained Excellence" Award, given for their new window models to make homes more energy efficient as well as secure. PNC Equity Partners made this investment.
- ICG Commerce, Inc., King of Prussia, PA - ICG Commerce is a leading procurement services provider exclusively focused on helping companies achieve greater control and increased value from their procurement organization. The company offers sourcing and on-going operational buying services that enable companies to better manage procurement spending by providing consulting, automation and ongoing purchasing solutions. Graham Partners Investments made this investment.
- Interface Solutions, Inc., Lancaster, PA - Interface Solutions Inc. (ISI) is a leading manufacturer of fiber-based flooring felt and intermediate gasket materials and a fabricator of finished fiber, graphite and metal gaskets. Acquisitions, expansions, and capital investments in research facilities empower ISI to offer both OEM and aftermarket customers unmatched technical and design support and application testing. ISI has an extraordinary depth of experience and engineering knowledge, with roots to predecessor companies dating back over 90 years. ISI was created as an independent, private corporation in 1999, formed from the organization previously known as Armstrong Industrial Specialties Inc. (AISI). PNC Equity Partners L.P. made this investment.

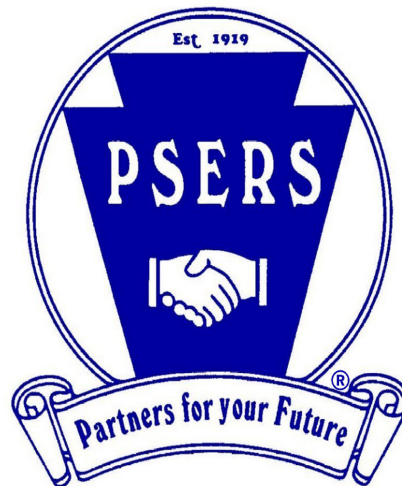
**Summary of Investments in
Pennsylvania
(as of December 31, 2010)
(continued)**

Private Debt

PSERS' Private Debt program has committed \$4.0 billion to 25 partnerships since the inception of the program. PSERS is the lead investor in many of the private debt funds in which PSERS invests. PSERS has committed \$225 million to the two Pennsylvania-based Versa Capital Partners funds (formerly known as Chrysalis Capital Partners) managed by Versa Capital Management, located in Wayne, Pennsylvania. As of December 31, 2010, PSERS' private debt partnerships invested in 283 Pennsylvania locations employing approximately 13,900 employees with a combined payroll of \$644.8 million. The market value of these investments is \$5.6 billion, of which PSERS' share is \$324.0 million. From the inception of this program to December 31, 2010, 2 of the 25 private debt partnerships were headquartered in Pennsylvania.

The following companies are a sample of a Pennsylvania investments made through PSERS' Private Debt Program:

- PQ Corporation, Berwyn, PA - PQ Corporation is a leading producer of silicate, zeolite, and other performance materials serving the detergent, pulp and paper, chemical, petroleum, catalyst, water treatment, construction, and beverage markets. It is a global enterprise, operating in 19 countries on five continents. Potters Industries, a wholly owned subsidiary, is a leading producer of engineered glass materials serving the highway safety, polymer additive, metal finishing, and conductive particle markets. OCM Opportunities Fund VII, LP made this investment.
- David's Bridal, Ardmore, PA - David's Bridal is the leading bridal gown and bridal accessory retailer in the United States operating through the David's Bridal and Priscilla's of Boston divisions. The David's Bridal division is a value-oriented provider while Priscilla's of Boston is a luxury brand that caters to the more affluent segments of the market. This investment was made through New York Life Investment Management Mezzanine Partners II.
- DynaVox, Pittsburgh, PA - DynaVox, a former division of Sunrise Medical spun-out in May 2004, is the market leader in the alternative and augmentative communication industry, developing and selling devices and software for individuals affected by speech disabilities resulting from traumatic, congenital or degenerative conditions. This investment was made through New York Life Investment Management Mezzanine Partners I.
- Simplexity (Adeptio INPC Holdings, LLC), Wayne, PA – Simplexity is the leading independent online seller of wireless services, representing all major wireless carriers and selling primarily through proprietary websites (principally its flagship site, www.wirefly.com) and partner websites (e.g. Radioshack.com, Staples.com, Overstock.com). This investment was made through Versa Capital Fund I.



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Section 4 - Commitment to Pennsylvania

Pennsylvania-Based Publicly Traded Stocks (as of December 31, 2010)

<i>Security</i>	<i>Shares Outstanding</i>	<i>Market Value</i>
Air Products & Chemicals, Inc.	148,939	\$ 13,546,002
Airgas, Inc.	245,216	15,316,191
Alcoa, Inc.	432,293	6,652,989
Allegheny Energy, Inc.	235,095	5,698,703
Allegheny Technologies, Inc.	37,093	2,046,792
Amerisourcebergen Corp.	103,969	3,547,422
Ametek, Inc.	60,988	2,393,779
Ansys, Inc.	41,550	2,163,509
Aqua America, Inc.	52,411	1,178,199
Black Box Corp.	29,550	1,131,470
Carpenter Technology Corp.	16,755	674,221
Cephalon, Inc.	28,305	1,746,985
Charming Shoppes, Inc.	319,500	1,134,225
CIGNA Corp.	101,927	3,736,644
Comcast Corp. Class A	1,094,168	22,979,111
Consolidated Energy, Inc.	165,499	8,066,421
Dentsply International, Inc.	53,461	1,826,762
Destination Maternity Corp.	3,300	125,169
Dick's Sporting Goods, Inc.	33,773	1,266,488
Dollar Financial Corp.	13,270	379,920
Endo Pharmaceuticals Holdings, Inc.	75,846	2,708,461
Entercom Communications Corp.	3,900	45,162
EQT Corp.	101,922	4,570,182
Federated Investors, Inc. Class B	34,464	901,923
FMC Corp.	27,290	2,180,198
Fulton Financial Corp.	75,812	783,896
H.J. Heinz Company	120,673	5,968,487
Harsco Corp.	30,678	868,801
Hershey Company	58,193	2,743,800
Horsehead Holding Corp.	34,965	455,944
Interdigital, Inc.	55,720	2,320,181
Kenexa Corp.	16,525	360,080
Kennametal, Inc.	31,283	1,234,427
Liberty Property Trust	43,520	1,389,158
Matthews International Corp.	11,234	392,965
Mine Safety Appliances Company	11,766	366,276
Mylan Labs, Inc.	163,741	3,459,847
PNC Financial Services Group, Inc.	197,818	12,011,509
PPG Industries, Inc.	61,332	5,156,181

Section 4 - Commitment to Pennsylvania

Pennsylvania-Based Publicly Traded Stocks
 (as of December 31, 2010)
 (continued)

<i>Security</i>	<i>Shares Outstanding</i>	<i>Market Value</i>
PPL Corp.	181,827	\$ 4,785,687
Pulse Electronics Corp.	35,400	188,328
Quaker Chemical Corp.	7,700	320,859
SEI Investments Company	55,588	1,322,439
Sunoco, Inc.	45,365	1,828,663
Toll Brothers, Inc.	54,993	1,044,867
Triumph Group, Inc.	5,530	494,437
II-VI, Inc.	29,350	1,360,666
UGI Corp.	42,094	1,329,329
United States Steel Corp.	115,420	6,742,836
Universal Stainless & Alloy Products, Inc.	1,400	43,792
Urban Outfitters, Inc.	48,444	1,734,780
Wabtec Corp.	18,269	966,247
Total		\$ <u>165,691,409</u>



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Section 4 - Commitment to Pennsylvania

Pennsylvania-Based Bonds (as of December 31, 2010)

<i>Security</i>	<i>Interest Rate (%)</i>	<i>Maturity Date</i>	<i>Par Value</i>	<i>Market Value</i>
Airgas, Inc.	7.125	10/01/2018	595,000	\$ 657,475
Allegheny County Hospital	5.000	09/01/2018	2,000,000	2,176,040
Allegheny Ludlum Corp.	6.950	12/15/2025	300,000	312,765
Allegheny Technologies, Inc.	8.375	12/15/2011	80,000	83,281
Allegheny Technologies, Inc.	9.375	06/01/2019	1,015,000	1,185,774
Allentown PA Taxable	0.000	10/01/2022	1,800,000	780,192
Allentown PA Taxable	0.000	10/01/2023	3,170,000	1,260,804
Allentown PA Taxable	0.000	10/01/2024	2,605,000	948,559
Allentown PA Taxable	0.000	10/01/2025	3,660,000	1,219,036
Allentown PA Taxable	0.000	10/01/2026	3,655,000	1,112,874
Bell Telephone Co. of PA	8.350	12/15/2030	400,000	464,656
Comcast Corp.	10.625	07/15/2012	7,000,000	7,930,373
Comcast Corp.	6.500	01/15/2015	40,000	45,549
Comcast Corp.	5.875	02/15/2018	200,000	222,048
Comcast Corp.	5.150	03/01/2020	480,000	504,163
Comcast Corp.	5.650	06/15/2035	80,000	77,718
Comcast Corp.	6.450	03/15/2037	110,000	117,531
Comcast Corp.	6.950	08/15/2037	30,000	33,932
Comcast Corp.	6.400	03/01/2040	327,000	350,498
Commonwealth Financing Authority PA	6.392	06/01/2024	1,200,000	1,234,608
Consolidated Energy, Inc.	8.000	04/01/2017	2,170,000	2,311,050
Consolidated Natural Gas Co.	6.850	04/15/2011	2,500,000	2,535,300
Consolidated Natural Gas Co.	6.250	11/01/2011	5,375,000	5,602,309
Duquesne Light Company	6.700	04/15/2012	5,690,000	6,050,291
Harsco Corp.	2.700	10/15/2015	625,000	609,069
Hershey Company	4.850	08/15/2015	2,000,000	2,182,380
Koppers, Inc.	7.875	12/01/2019	1,915,000	2,053,838
Mylan, Inc.	7.625	07/15/2017	1,745,000	1,856,244
Mylan, Inc.	7.875	07/15/2020	700,000	754,250
New Enterprise Stone & Lime Company	11.000	09/01/2018	2,180,000	2,071,000
Penn Mutual Life Insurance Company	6.650	06/15/2034	465,000	419,267
Penn National Gaming, Inc.	6.750	03/01/2015	2,215,000	2,248,225
PHEAA	0.318	07/25/2016	879,084	877,376
PHEAA	0.888	04/25/2019	4,714,561	4,717,815
PNC Bank	4.875	09/21/2017	5,000,000	5,132,500
PNC Bank	6.000	12/07/2017	1,275,000	1,386,779
PNC Funding Corp.	5.125	02/08/2020	1,950,000	2,032,466
PNC Mortgage Acceptance	6.800	03/12/2034	1,800,000	1,810,534
PPG Industries, Inc.	7.400	08/15/2019	1,399,000	1,624,631

Section 4 - Commitment to Pennsylvania

Pennsylvania-Based Bonds
 (as of December 31, 2010)
 (continued)

<i>Security</i>	<i>Interest Rate (%)</i>	<i>Maturity Date</i>	<i>Par Value</i>	<i>Market Value</i>
PPL Capital Funding, Inc.	6.700	03/30/2067	970,000	\$ 950,600
State Public School Building Authority	5.000	09/15/2027	2,000,000	1,804,880
Sungard Data Systems, Inc.	4.875	01/15/2014	240,000	240,000
Sungard Data Systems, Inc.	10.625	05/15/2015	1,080,000	1,190,700
Verizon Pennsylvania, Inc.	5.650	11/15/2011	5,655,000	5,883,914
West Penn Power Company	5.950	12/15/2017	1,885,000	2,078,175
Wyoming PA Area School District	5.280	09/01/2014	1,665,000	<u>1,733,099</u>
Total				<u>\$ 80,874,565</u>



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Section 4 - Commitment to Pennsylvania

Real Estate Separate Account Pennsylvania Properties
(as of December 31, 2010)

<i>Real Estate Separate Account Pennsylvania Properties</i>			
Property	Location	Description	Manager
5 North Fifth Street	Harrisburg	5 story office building (PSERS headquarters)	Grosvenor
Total market value (unaudited) of Pennsylvania-based properties was \$8.4 million as of December 31, 2010.			



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Section 4 - Commitment to Pennsylvania

Pennsylvania-Based Private Equity/Venture Capital/Private Debt General Partners

(Dollar Amounts in Millions)

(Since the inception of the program as of December 31, 2010)

<i>Partnership</i>	<i>Location</i>	<i>PSERS Maximum Capital Commitment</i>
Adams Capital Management, L.P.	Sewickley	\$ 12.5
APA/Fostin Venture Fund I (closed)	King of Prussia	20.0
CEO Venture Fund I (closed)	Pittsburgh	1.0
CEO Venture Fund II (closed)	Pittsburgh	15.0
Co-Investment 2000 Fund, L.P.	Wayne	135.0
Co-Investment Fund II, L.P.	Wayne	135.0
Commonwealth Venture Partners I (closed)	Philadelphia	20.0
Commonwealth Venture Partners II (closed)	Philadelphia	10.0
Cross Atlantic Technology Fund, L.P.	Radnor	30.1
Cross Atlantic Technology Fund II, L.P.	Radnor	21.1
Graham Partners Investments, L.P.	Newtown Square	56.7
Keystone Minority Capital Fund (closed)	Philadelphia	0.1
Keystone Venture Fund IV (closed)	Philadelphia	7.8
LLR Equity Partners, L.P.	Wayne	62.5
LLR Equity Partners II, L.P.	Wayne	75.0
LLR Equity Partners III, L.P.	Wayne	187.5
Loyalhanna Venture Fund (closed)	Pittsburgh	15.0
Milestone Partners II, L.P.	Rosemont	29.9
Milestone Partners III, L.P.	Rosemont	60.0
NEPA Venture Fund I (closed)	Bethlehem	1.0
NEPA Venture Fund II	Bethlehem	5.0
Novitas Capital I, L.P.	Wayne	30.0
Novitas Capital II, L.P.	Wayne	75.0
P/A Fund	King of Prussia	30.0
PNC Equity Partners, L.P.	Pittsburgh	43.2
PNC Equity Partners II, L.P.	Pittsburgh	68.1
Quaker BioVentures, L.P.	Wayne	69.4
Quaker BioVentures II, L.P.	Wayne	100.0
SCP Private Equity Partners I, L.P.	Wayne	62.5
SCP Private Equity Partners II, L.P.	Wayne	125.0
TDH III, L.P.	Rosemont	7.4
Technology Leaders, L.P. (closed)	Wayne	10.0
TL Ventures III, L.P.	Wayne	50.0
Versa Capital Partners, L.P. (f/k/a Chrysalis)	Wayne	75.0
Versa Capital Partners III, L.P.	Wayne	150.0
Total		<u>\$ 1,795.8</u>

Section 5 - Other PSERS Programs





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Health Options Program

Pursuant to Sec. 8502.1, PSERS sponsors a group health insurance program called the Health Options Program (HOP) for individuals who are annuitants or survivor annuitants or the spouse or dependents of an annuitant or survivor annuitant. The HOP is funded by and for eligible participants. The following is a summary of HOP initiatives during the period July 1, 2009 through June 30, 2010.

- » The Retirement Board issued an Invitation For Application (IFA) to allow qualified insurance carriers to apply to PSERS to offer a fully insured Medicare Advantage group insurance plan and accompanying Pre-65 group insurance plan to PSERS retirees who participate in the Health Options Program (HOP). The effective date of the insurance is January 1, 2011. As a result of the IFA, PSERS is expecting the following carriers to participate in HOP:

Aetna

Capital Blue Cross/Keystone Health Plan Central

Geisinger Health Plan

Highmark

Independence Blue Cross (IBC)/

Keystone Health Plan East

UPMC

- » The Retirement Board submitted an application with Health and Human Services (HHS) for the Early Retiree Reinsurance Program (ERRP). ERRP was established by section 1102 of the Patient Protection and Affordable Care Act (the Affordable Care Act), P.L. 111-148, enacted on March 23, 2010.

The Congress appropriated funding of \$5 billion for the temporary program. The program provides reimbursement to participating employment-based plans for a portion of the cost of health benefits for early retirees and their spouses, surviving spouses and dependents. HHS will reimburse plans for certain claims between \$15,000 and \$90,000 (with those amounts being indexed for plan years starting on or after October 1, 2011). The purpose of the reimbursement is to make health benefits more affordable for plan participants and sponsors so that health benefits are accessible to more Americans than they would otherwise be without this program.

- » The Retirement Board authorized an open enrollment for 2011 allowing all PSERS annuitants or survivor annuitants or the spouse or dependents of an annuitant or survivor annuitant to enroll in HOP without a Qualifying Event. The open enrollment was conducted from October 1, 2010 to November 15, 2010 for benefit coverage effective January 1, 2011. PSERS conducted open enrollment meetings for members across the Commonwealth and in states with large concentrations of PSERS retirees. The meetings informed members about the benefit plans for 2011 and the impact of the Patient Protection and Affordable Care Act on their coverage. The last time the Board authorized an open enrollment was for the 2006 plan year when prescription drug coverage was added to Medicare.
- » The Retirement Board continues to expand the capabilities of the HOPbenefits.com website. Currently the website gives HOP Medical Plan participants access to personal health information and provides them with the ability to inquire and receive updates on the status of their claims. The website is scheduled to provide all HOP participants access to their 2011 plan options for the open enrollment period.

Health Options Program

(continued)

Plans Available Through HOP

HOP offers participants a choice among a supplement to Medicare, various Medicare prescription drug plans, and a Medicare Advantage plan. Participants under age 65 and not eligible for Medicare may elect to enroll in a high deductible health insurance plan without prescription drug coverage or a managed care plan. These options are available to new enrollees or HOP participants who elected to change coverage during the 2011 open enrollment period conducted in the fall of 2010. The following is a list of HOP plans as of January 1, 2011:

For Individuals Eligible for Medicare:	For Individuals Not Eligible for Medicare
Enhanced Medicare Rx Option (Medicare Part D)	
Basic Medicare Rx Option (Medicare Part D)	HOP Pre-65 Medical Plan w/ Rx coverage
HOP Medical Plan (Medicare supplement)	HOP Pre-65 Medical Plan
Medicare Advantage Plans	Companion Pre-65 Managed Care Plans
Aetna Medicare PPO	Aetna PPO Plan
Capital Blue Cross SeniorBlue PPO	Capital Blue Cross PPO
Geisinger Gold Preferred PPO	Geisinger Choice PPO
Highmark FreedomBlue PPO	Highmark PPO Blue
Independence Blue Cross-Keystone 65 HMO	Independence Blue Cross-Keystone HMO
UPMC for Life HMO	UPMC Health Plan

HOP Premiums

Paid By Individuals ELIGIBLE for Medicare

The premiums paid by participants eligible for Medicare generally vary by geographical area. The exceptions are the premiums for the HOP Medicare Rx Options. The following is a summary of the 2010 and 2011 premium costs in Pennsylvania for single coverage:

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2010	2011	Increase/ (Decrease)
Medicare Supplement Plan			
HOP Medical Plan	\$ 199	\$ 199	0%
w/ Basic Rx	\$ 225	\$ 226	0%
w/ Enhanced Rx	\$ 287	\$ 274	(5)%
Medicare Advantage Plans (compared with 2010 legacy plan)			
Aetna Medicare 15 Special PPO	\$ 411	\$ 306	(26)%
Highmark FreedomBlue PPO	\$ 257	\$ 541	111%
Independence Blue Cross / Keystone East HMO	\$ 350	\$ 351	0%
Legacy Medicare Advantage Plans (no new participants)			
Aetna Medicare 10 Special Plan HMO	\$ 375	\$ 397	6%
IBC's Personal Choice 65 PPO	\$ 591	\$ 598	1%

Section 5 - Other PSERS Programs

Health Options Program
(continued)

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2010	2011	Increase/ (Decrease)
Medicare Supplement Plan			
HOP Medical Plan	\$ 187	\$ 195	4%
w/ Basic Rx	\$ 213	\$ 222	4%
w/ Enhanced Rx	\$ 275	\$ 270	(2)%
Medicare Advantage Plans (compared with 2010 legacy plan)			
Highmark FreedomBlue PPO	\$ 245	\$ 246	0%
UPMC for Life HMO	\$ 207	\$ 211	2%
Legacy Medicare Advantage Plans (no new participants)			
Aetna Medicare 15 Special Plan HMO	\$ 206	\$ 308	50%
Highmark SecurityBlue HMO	\$ 238	\$ 237	0%

North & Central Region: All other counties in Pennsylvania	2010	2011	Increase/ (Decrease)
Medicare Supplement Plan			
HOP Medical Plan	\$ 157	\$ 164	4%
w/ Basic Rx	\$ 183	\$ 191	4%
w/ Enhanced Rx	\$ 245	\$ 239	(2)%
Medicare Advantage Plans (compared with 2010 legacy plan)			
Capital Blue Cross SeniorBlue PPO	\$ 213	\$ 210	(1)%
Geisinger Gold Preferred PPO	\$ N/A	\$ 181	N/A
Highmark FreedomBlue PPO	\$ 225	\$ 226	0%
UPMC for Life HMO	\$ 207	\$ 211	2%
Legacy Medicare Advantage Plans (no new participants)			
Aetna Medicare 10 Special Plan HMO	\$ 203	\$ 223	10%
Capital Blue Cross / Keystone Central SeniorBlue HMO	\$ 205	\$ 209	2%
Highmark SecurityBlue HMO	\$ 238	\$ 237	0%

All Regions	2010	2011	Increase
HOP Pre-65 Medical Plan (for comparison)			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 569	\$ 621	9%
Pre-65 Medical Plan w/ Prescription Drugs	\$ 686	\$ 748	9%

Section 5 - Other PSERS Programs

Health Options Program

(continued)

HOP Premiums Paid By Individuals NOT ELIGIBLE for Medicare

The premiums paid by participants not eligible for Medicare generally do not vary by geographical area. The exceptions are the regional managed care plans. The following is a summary of the 2010 and 2011 premium costs in Pennsylvania for single coverage:

All Regions	2010	2011	Increase
HOP Pre-65 Medical Plan (for comparison)			
HOP Pre-65 Medical Plan (Single Coverage)	\$ 569	\$ 621	9%
Pre-65 Medical Plan w/ Prescription Drugs	\$ 686	\$ 748	9%

Southeastern Region: Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties	2010	2011	Increase/ (Decrease)
Active Managed Care Plan			
Aetna PPO	\$ 1,204	\$ 773	(36)%
Highmark PPOBlue	\$ 918	\$ 1,014	10%
Keystone East HMO	\$ 839	\$ 1,051	25%
Legacy Managed Care Plans (no new participants)			
Aetna Citizen HMO Plan	\$ 917	\$ 963	5%
IBC's Personal Choice PPO	\$ 907	\$ 1,248	38%

Southwestern Region: Allegheny, Fayette, Greene, Indiana, Washington, and Westmoreland Counties	2010	2011	Increase/ (Decrease)
Active Managed Care Plan			
Highmark PPOBlue	\$ 918	\$ 1,014	10%
UPMC HMO		\$ 1,341	N/A
Legacy Managed Care Plans (no new participants)			
Aetna HMO	\$ 903	\$ 963	7%
Highmark HMO	\$ 1,793	\$ 1,441	(20)%

Section 5 - Other PSERS Programs

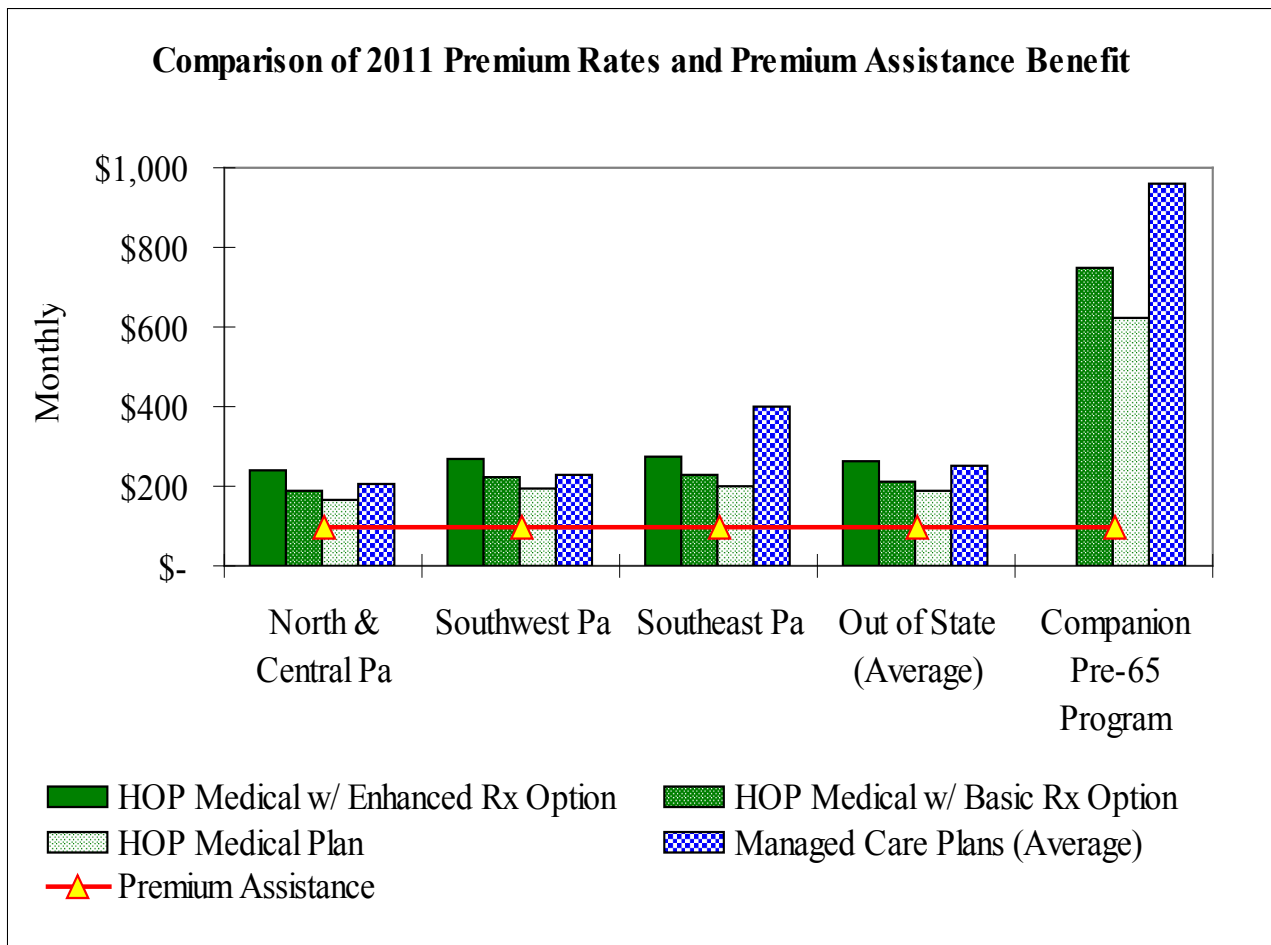
Health Options Program

(continued)

North & Central Region: All other counties in Pennsylvania	2010	2011	Increase/ Decrease
Active Managed Care Plan			
Geisinger	N/A	\$ 651	N/A
Highmark PPOBlue	\$ 918	\$ 1,014	10%
Keystone Central PPO	\$ 968	\$ 934	(4)%
UPMC EPO	N/A	\$ 1,341	N/A
Legacy Managed Care Plans (no new participants)			
Aetna Patriot Plan HMO	\$ 903	\$ 963	7%
Highmark HMO	\$ 1,250	\$ 1,441	15%
Keystone Central HMO	\$ 766	\$ 872	14%

HOP Premiums Compared to the PSERS Premium Assistance Benefit

The following charts illustrate the HOP premiums paid by PSERS retirees for single coverage compared with the PSERS Premium Assistance benefit. The premiums for 2-person and family coverage would be at least twice the cost of single coverage. Premium Assistance is an offset for the PSERS retiree's premium only.



Health Options Program
(continued)

	Central Region	Southwest Region	Southeast Region	Out of State (Average)	Companion Pre-65 Program
HOP Medical w/ Enhanced Rx Option	\$ 239	\$ 270	\$ 274	\$ 261	N/A
HOP Medical w/ Basic Rx Option	\$ 191	\$ 222	\$ 226	\$ 213	\$ 748
HOP Medical Plan	\$ 164	\$ 195	\$ 199	\$ 186	\$ 621
Managed Care Plans (Average)	\$ 207	\$ 229	\$ 399	\$ 252	\$ 961
Premium Assistance	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

The current Premium Assistance benefit will cover, on average, 45% of the fee-for-service premium and 37% of the managed care premium for retirees eligible for Medicare. The Premium Assistance benefit covers, on average, 13% of the premium for retirees not eligible for Medicare.



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Section 5 - Other PSERS Programs

Health Options Program

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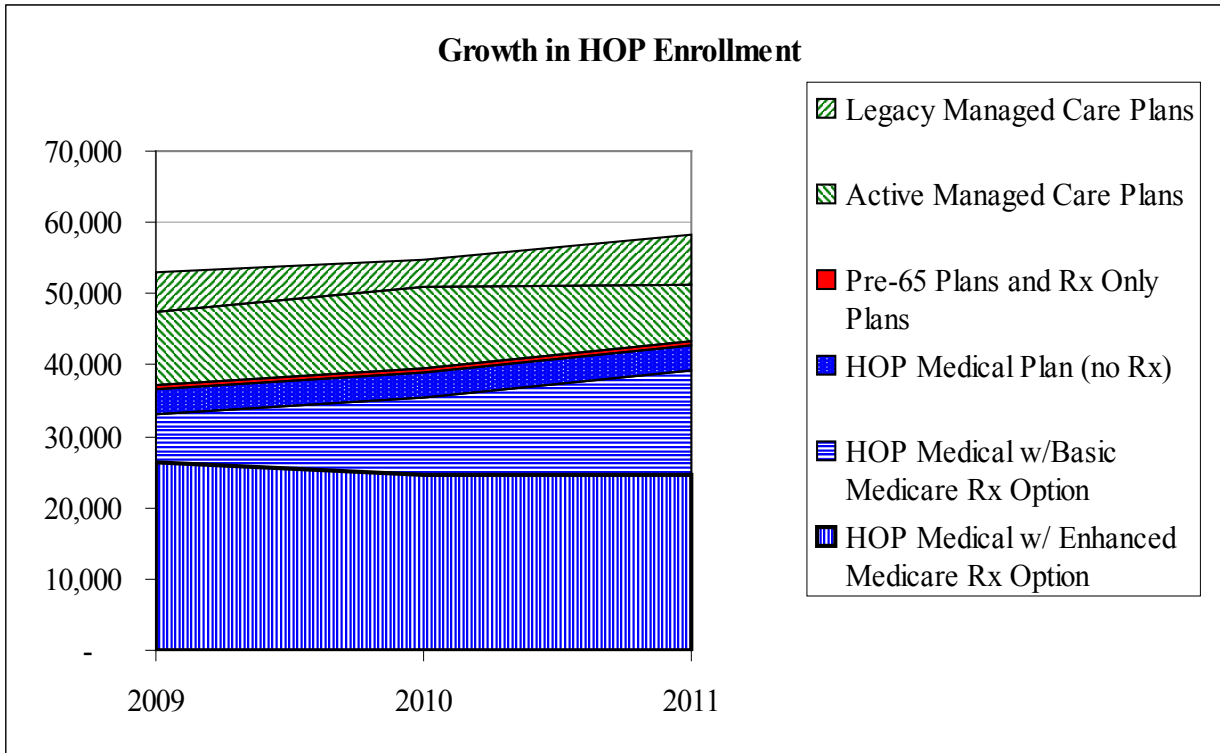
HOP Enrollment

As of January 1, 2011 there are 71,022 participants (58,735 retirees plus their dependents) in the HOP. The majority of the HOP participants were enrolled in the HOP Medical Plan with Enhanced Medicare Rx Option. The total numbers of retirees by Option are:

Individuals Eligible for Medicare	Retirees	Participants
HOP Medical w/ Enhanced Medicare Rx Option	24,640	28,984
HOP Medical w/Basic Medicare Rx Option	14,474	17,322
HOP Medical Plan (no Rx)	3,716	4,167
HOP Enhanced Rx Only	66	78
HOP Basic Rx Only	202	261
Aetna PPO	248	319
Aetna Legacy HMO	555	687
Geisinger PPO	60	77
Highmark PPO	6,050	7,892
Highmark Legacy HMO	5,642	7,435
Keystone Central PPO	145	188
Keystone Central Legacy HMO	623	830
Keystone East HMO	1,235	1,546
Keystone East Legacy PPO	216	251
UPMC HMO	193	261
Total Medicare Eligible	58,065	70,298
Individuals Not Eligible for Medicare		
HOP Pre-65 Medical Plan	157	169
HOP Pre-65 Medical Plan w/Rx Coverage	241	252
Aetna PPO	21	26
Aetna Legacy HMO	7	8
Geisinger PPO	12	13
Highmark PPO	108	113
Keystone Central PPO	14	16
Keystone Central Legacy HMO	12	12
Keystone East HMO	71	81
Keystone East Legacy PPO	26	33
UPMC HMO	1	1
Total Not Eligible for Medicare	670	724
Total in HOP	58,735	71,022

Health Options Program (continued)

The following graph illustrates the number of retirees (not counting dependents) in the various options from January 2009 to January 2011:



Funding

A majority of the premium income is deducted from the retiree's monthly retirement benefit and transferred to the plans (claims administrator for the self-funded Options). Approximately 5,000 retirees submit monthly premium payments to the HOP Administration Unit, as their monthly retirement benefits, if any, are insufficient to cover the premium cost. In addition, individuals enrolled in a Medicare Rx Option without HOP Medical Plan coverage must submit monthly premium payments.

Health Options Program
(continued)

HOP income is projected to be \$232 million during the 2011 Plan Year. A majority of this income comes from premium payments from participants. Other sources of funding are Medicare prescription drug payments (for participants enrolled in a Medicare prescription drug plan) from the Center for Medicare and Medicaid Services (CMS), anticipated payment from the Early Retiree Reinsurance Program (ERRP) from Health and Human Services (HHS), and interest income. The following is a breakdown of these sources of income (Dollar amounts in Millions):

Income	2011
Participant Contributions	\$ 199.0
CMS - Medicare Prescription Drug Payments	31.0
HHS – Early Retiree Reinsurance Program	1.5
Interest Income	0.5
Total	\$ 232.0

PSERS retirees enrolled in HOP, who meet the eligibility requirements for Premium Assistance, receive \$100 per month as a partial reimbursement for the out-of-pocket premium expense. Approximately 48,000 of the 71,000 HOP participants receive Premium Assistance. This accounts for about \$59 million of the \$90 million annual benefit expense of the Premium Assistance Program. The following Premium Assistance Program section provides additional information.

Contributions and interest income pay for the benefits provided to HOP participants plus administrative expenses. The following is a breakdown of the projected benefit expenses (Dollar amounts in Millions):

Benefit Expenses	2011
Self-funded Hospital, Medical & Major Medical Benefits	\$ 97.0
Self-funded Prescription Drug Benefits	63.0
Managed Care Contributions	63.0
Total	\$ 223.0

In addition to the benefit expenses identified above, the HOP will pay \$6.6 million in enrollment and administrative expenses including reimbursing PSERS for its expenses.

As of June 30, 2010, HOP had net assets of \$122 million held in trust to pay the expenses of HOP for the exclusive benefit of participants.



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Premium Assistance Program

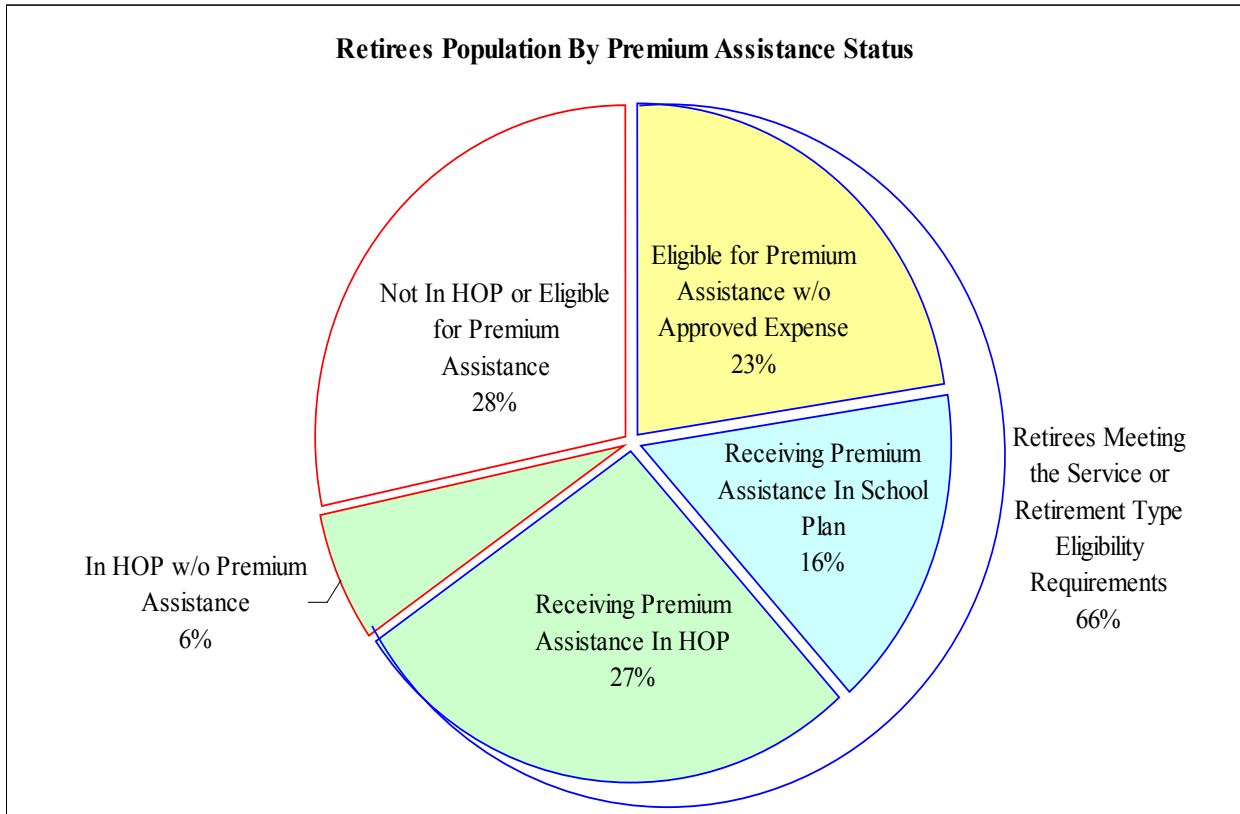
In accordance with Sec. 8509, PSERS provides up to \$100.00 per month in Premium Assistance to eligible retirees to help cover the cost of their health insurance. The eligibility requirements for premium assistance are as follows:

- 24.5 years of credited service, or
- 15 years of credited service if termination of employment and retirement occurred after age 62, or
- Receiving a Disability annuity from PSERS; and
- Have an out-of-pocket premium expense from their former school employer's health plan or the PSERS sponsored Health Options Program (HOP).

Enrollment

As of June 30, 2010, PSERS had 176,210 retirees (excluding survivor annuitants and beneficiaries) receiving a monthly benefit. Of these retirees, 115,109 meet the service, service and age at termination of school service, or retirement type (disability) eligibility requirements for the premium assistance program. Of the retirees meeting these requirements, 39,670 are not receiving premium assistance payments because they do not have an out-of-pocket premium expense from an approved plan. Of the 75,439 retirees receiving premium assistance benefits, 47,689 are enrolled in HOP and 27,750 are participating in their former school employer's health plan and have an out-of-pocket premium expense.

A breakdown of retirees by their premium assistance status is as follows:



Section 5 - Other PSERS Programs

Premium Assistance Program (continued)

June 30, 2010	Number	Percentage
Eligible for Premium Assistance w/o Approved Expense	39,670	22.5%
Receiving Premium Assistance In School Plan	27,750	15.7%
Receiving Premium Assistance In HOP	47,689	27.1%
In HOP w/o Premium Assistance	11,046	6.3%
Not In HOP or Eligible for Premium Assistance	50,055	28.4%
Total Retiree Population	176,210	100.0%

1 As of June 30, 2010 Actuarial Valuation (Excludes Survivor Annuitants and Beneficiaries)

2 Meeting the service, service and age at termination of school employment or retirement type requirements.

Funding

The Premium Assistance Program is funded by employer contributions. The PSERS Actuary determined that the contribution needed during the 2011/2012 fiscal year was 0.65% of payroll. For the year ended June 30, 2010, employer contributions equaled \$102.7 million and net investment income equaled \$0.9 million. During this period, PSERS paid Premium Assistance benefits equaling \$89.9 million and incurred administrative expenses of \$1.9 million.

As of June 30, 2010, the Premium Assistance Program had net assets of \$116.8 million.

