



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority and Fiduciary Standard

The Board has the responsibility to invest funds of the System in accordance with guidelines and limitations set forth in the Code and other applicable state law. As fiduciaries, the members of the Board and Staff must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In the performance of their duties, the members of the Board and Staff delegated with investment authority shall be held to the Prudent Investor Standard.

The Prudent Investor Standard, as articulated in the Code, means "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 requires a trustee to act prudently and with caution, discretion, loyalty, and care but does not restrict the assets in which the Board can invest. Under the Prudent Investor Standard, which recognizes modern portfolio theory, the Board's investment and management decisions with respect to individual assets shall be considered in the context of the portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent. This Standard recognizes the trade-off between risk and return.

Policies and Objectives

The Board is responsible for the formulation of investment policies for the System. The overall investment objectives of the System are as follows:

- **Return Objectives** – the overall return objective is to realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis. Funding adequacy is achieved when the actuarial market value of assets is at least equal to the System's projected benefit obligations. The System has a return objective of meeting or exceeding the targeted actuarial rate of return (currently 8.5%) over the long-term. In addition, the Board has the following broad objectives:
 1. The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
 2. 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**

1. 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. Failure to do so could impair the System's ability to achieve its funding and long-term investment goals and objectives; and,
2. The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 12% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

To achieve these objectives, the Board meets at least once per year to review the overall asset allocation plan and investment policies for the System. Implementation of investment policies is accomplished through the use of external investment management firms who act as agents for the System and through internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policies.

Operations

The Board provides oversight of investment activities through the Finance Committee that makes recommendations to the Board. The Finance Committee generally conducts seven meetings per year but may meet more frequently as needed. Investment Office staff, as well as external investment advisors, internal investment managers, and Investment Accounting staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2007, Wilshire Associates Incorporated (Wilshire) served as the general investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policies. In addition, the Board utilized Courtland Partners, Ltd. as the real estate consultant and Portfolio Advisors, LLC as the alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. Investment Office staff implement the investment decisions within the Investment Policy Statement, Objectives and Guidelines regarding asset allocation, security selection, and other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At year end, 49 external investment management firms were managing \$34.7 billion in assets of the System, \$23.0 billion in assets were managed by the System's internal investment managers, and the remaining \$10.8 billion in assets were managed by numerous emerging, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored quarterly against a pre-established benchmark as well as the performance of its peer group.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the first quarter of the calendar year. The Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating the asset allocation plan. The Board believes that the level of risk assumed by the System is largely determined by the Board's strategic asset allocation plan. The Board, in determining its long-term asset allocation, shall take the following factors into consideration:

- The System's investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board's willingness and ability to take risk; and,
- The employers' (Commonwealth and school districts) financial strength.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as prepared by its general investment consultant. The current long-term, top-down asset allocation targets of the Board are discussed in the following paragraphs.

The long-term target allocation as of June 30, 2007 included an equity target allocation of **58.5%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (29.25%) and international equity exposure (29.25%). Within the U.S. equity target, the portfolios are diversified between large, small and micro capitalization investment managers, and growth and value investment managers. The international equity exposure included both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of **22.0%** consisted of U.S. core fixed income exposure (12.6%), Treasury Inflation-Protected Securities exposure (5.0%), high yield fixed income exposure (1.1%), and global fixed income exposure (3.3%). Within these categories, all sectors of the bond market are represented.

The real estate target allocation of **8.0%** consisted primarily of opportunistic limited partnerships and publicly traded real estate securities. During the second quarter of the fiscal year ended June 30, 2007, the Board eliminated the home country bias in the publicly traded real estate securities portfolio by converting the overall investment objective from U.S. real estate to global real estate.

Alternative investments had a target of **9.0%**. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The commodities target allocation of **2.5%** consisted primarily of commodity futures and commodity and commodity-related publicly traded stocks. The commodities allocation was added during the second quarter of the fiscal year ended June 30, 2007. The Board added commodities to diversify the System's total portfolio risk.

Finally, unallocated cash of the System has an asset allocation target of **0.0%** since cash historically represents the lowest returning asset class over time.

Investment Results

As of June 30, 2007, the fair value of the investment portfolio was \$68.5 billion, an increase of \$9.8 billion over last year's value. This increase came primarily from net investment income (\$12.7 billion), which was partially offset by benefit payments in excess of member and employer contributions (\$2.5 billion) and net changes in other investment assets and liabilities (\$0.4 billion). The investment portfolio, as invested, was composed of 60.3% common and preferred stocks (equity), 20.5% fixed income investments, 8.0% real estate, 8.7% alternative investments, and 2.5% commodities at June 30, 2007. The table on page 74 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

The past fiscal year saw positive market returns across all major asset classes. Markets that enjoyed particularly strong returns included international equities (developed, small cap, and emerging markets), global publicly traded real estate, and U.S. equities. International equities were up 28.83% during the fiscal year according to the Morgan Stanley Capital International (MSCI) All-Country World Index (ACWI) ex. U.S., an international equity index (30% hedged to the U.S. dollar). International small capitalization equities, which are included in PSERS International Stock Portfolios, were up 35.91% according to the S&P/Citigroup Global ex. U.S. Extended Market Index. Emerging market equities, a sub-sector of the MSCI ACWI ex. U.S., were up 45.45% during the fiscal year according to the MSCI Emerging Markets Index. The strength in these markets can be partially attributed to the strength in commodity prices during the past fiscal year, especially oil, and the weakness of the U.S. dollar. In addition, strong economic growth and corporate profits have also driven these markets to higher levels. Global publicly traded real estate securities were up 25.36% during the fiscal year according to the FTSE EPRA/NAREIT Global Real Estate Index, a free-float index designed to track the performance of listed real estate companies and real estate investment trusts worldwide. The strength in the returns of this index occurred during the first half of the fiscal year, primarily from international markets which returned 34.67% during this period. The Dow Jones Wilshire 5000 Index, a U.S. equity index, returned 20.46% for the fiscal year. The U.S. continued to exhibit strong economic growth, stable consumer confidence, and a low unemployment rate in the face of a weakening housing market towards the latter half of the fiscal year.

The Domestic Fixed Income Policy Index, a U.S. bond index, was up 6.15% while the Global Fixed Income Policy Index, a global bond index, was up 4.73%. Modest returns in these indexes were driven by relatively stable monetary policies in the U.S. and international markets. In the U.S., the Federal Reserve left the Federal Funds rate unchanged at 5.25% during the fiscal year ended June 30, 2007.

As a result of the strong positive returns from equities, real estate, and alternative investments, the System was able to generate a total return of 22.93% for the one-year period ended June 30, 2007. This return exceeded the total fund Policy Index return of 18.48% by 445 basis points. Annualized total returns for the three- and five-year periods ended June 30, 2007 were 16.94% and 14.48%, respectively. These returns exceeded the total fund Policy Index returns for the three- and five-year periods ended June 30, 2007 by 331 and 252 basis points, respectively. As of June 30, 2007, the System had posted positive returns in 16 of the past 17 quarters.

Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager employed by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable and available, respective benchmark indexes used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2007		
	1 Year	3 Years	5 Years
PSERS Total Portfolio	22.93	16.94	14.48
Total Fund Policy Index	18.48	13.63	11.96
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	17.46	12.87	11.64
PSERS Domestic Stock Portfolios	20.37	12.59	11.72
Dow Jones Wilshire 5000 Index	20.46	12.73	11.96
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	19.96	12.69	11.94
PSERS International Stock Portfolios	31.33	26.18	20.39
MSCI All-Country World Index Ex. U.S. (1)	28.83	24.60	19.68
Median Public DBP Fund Universe - International Equities (Wilshire Database)	30.58	24.68	19.24
PSERS Domestic Fixed Income Portfolios	5.76	4.81	6.10
Domestic Fixed Income Policy Index (2)	6.15	3.99	4.49
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	6.86	4.93	5.85
PSERS Global Fixed Income Portfolios	4.71	4.69	7.15
Global Fixed Income Policy Index (3)	4.73	4.13	6.49
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	6.01	5.05	8.16
PSERS Real Estate (4)	29.99	31.38	24.05
Blended Real Estate Index (5)	18.45	19.51	15.43
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	16.30	19.87	17.69
PSERS Alternative Investments (4)	36.11	27.65	19.71
Venture Economics Median Return, Vintage Year Weighted	13.90	11.48	6.68
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	25.25	23.95	15.05

- (1) 30% hedged to the U.S. dollar effective July 1, 2006
- (2) Lehman Brothers U.S. Universal Index effective April 1, 2007; previously was the Lehman Brothers Aggregate Bond Index
- (3) Lehman Brothers Multiverse Index effective April 1, 2007; previously was the Lehman Brothers Global Aggregate Bond Index
- (4) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.
- (5) Returns presented are a blend of the FTSE EPRA/NAREIT Global Real Estate Index (25%) and the NCREIF Index (75%). The NCREIF Index is reported on a one-quarter lag. 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.

The System also is involved in a securities lending program administered by The Bank of New York Mellon Corporation. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated \$25.9 million in additional net income during the year.

Accomplishments

The System's returns during the fiscal year ended June 30, 2007 not only exceeded its total fund Policy Index, but also placed the System in the top 10% of all public defined benefit pension funds in the country as measured by Wilshire for the one-, three-, five-, and ten-year periods ended June 30, 2007. Strong returns such as these can be attributed to the combined efforts of the Board, the System's Investment Office and Investment Accounting staff, and its external consultants and investment advisors. Without their efforts, accomplishments such as this would not be possible.

The System continued its efforts to diversify its market exposures during FY 2007. To recognize the complete opportunity set available, the System converted its publicly traded real estate equity portfolio from a home country biased U.S. objective to a global objective. In addition, the System added commodities to its asset allocation as a risk diversifier.

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2007, the System completed preparation work to convert all of its real estate and alternative investment portfolios from an Excel-based accounting system to its internal accounting software provided by Financial Control Systems, Inc. and continued to develop various management reports using the internal accounting software.

Summary

The System had a tremendous fiscal year ended June 30, 2007, as the returns generated by the System were in the top 10% of all public defined benefit pension plan returns. Strong returns generated in U.S. and international equity markets, real estate, and alternative investments helped produce outstanding results for the System. For the fiscal year ended June 30, 2007, the System exceeded its long-term actuarial investment rate of return assumption of 8.5% on a one-, three-, five, and ten-year basis. In addition, we continue to believe that the System's asset allocation is structured to generate a long-term return that meets or exceeds the targeted actuarial rate of return assumption of the System for years to come.



Alan H. Van Noord, CFA
Chief Investment Officer

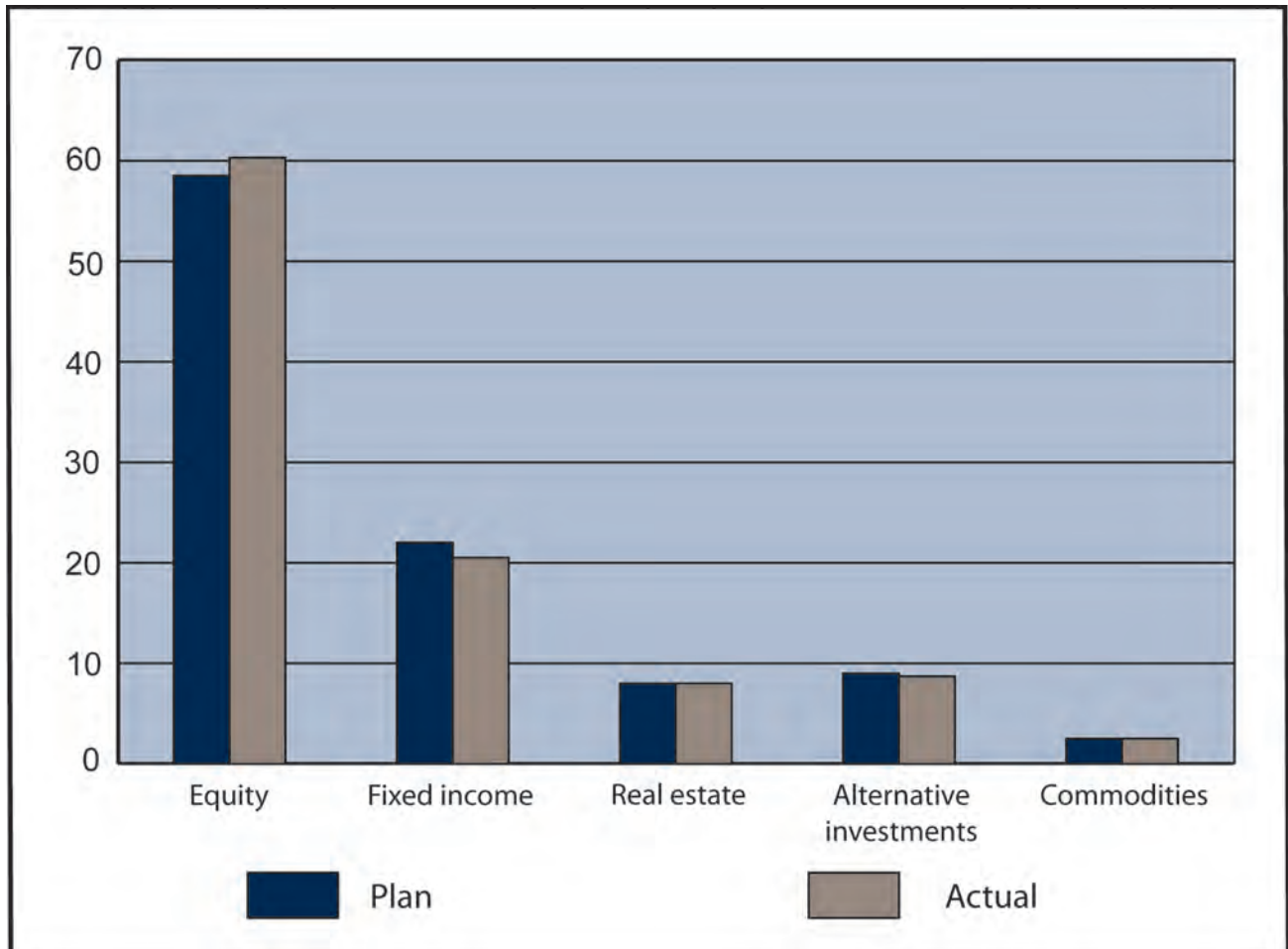
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2007
(Dollar Amounts in Thousands)

	Fair Value (\$)	% Fair Value
Pension investments		
Common and preferred stock (Equity):		
Domestic common and preferred stock	\$ 15,185,715	22.6%
Collective trust funds	4,564,836	6.8%
International common and preferred stock	18,964,922	28.3%
Subtotal per Statement of Plan Net Assets	38,715,473	57.7%
Net Asset Allocation Adjustment*	1,769,224	2.6%
Total Common and preferred stock - Asset Allocation Basis	40,484,697	60.3%
Fixed income:		
Domestic mortgage-backed securities	6,190,646	9.2%
U.S. government and agency obligations	2,608,384	3.9%
Domestic corporate and taxable municipal bonds	3,633,248	5.4%
Miscellaneous domestic fixed income	150,039	0.2%
Collective trust funds	1,202,848	1.8%
International fixed income	2,134,833	3.2%
Subtotal per Statement of Plan Net Assets	15,919,998	23.7%
Net Asset Allocation Adjustment*	(2,149,390)	(3.2)%
Total Fixed income - Asset Allocation Basis	13,770,608	20.5%
Real estate:		
Equity real estate	3,566,959	5.3%
Directly-owned real estate	321,027	0.5%
Subtotal per Statement of Plan Net Assets	3,887,986	5.8%
Net Asset Allocation Adjustment*	1,478,319	2.2%
Total Real estate - Asset Allocation Basis	5,366,305	8.0%
Alternative investments:		
Private equity	4,140,276	6.2%
Private debt	1,093,256	1.6%
Venture capital	605,534	0.9%
Total Alternative investments - Asset Allocation Basis	5,839,066	8.7%
Commodities:		
Net Asset Allocation Adjustment*	1,665,428	2.5%
Total Commodities - Asset Allocation Basis	1,665,428	2.5%
Pension investments - Asset Allocation Basis	\$ 67,126,104	100.0%
Net pension investment payable	1,219,704	
Pension investments per Statement of Plan Net Assets	\$ 68,345,808	
Postemployment Healthcare investments	\$ 180,725	100.0%

* - Includes Short-term investments which are allocated to the asset class of the investment manager which holds them, reclassifications of certain investments between asset classes and investment receivables/payables to adjust the Statement of Plan Net Assets' classification to the basis used to measure Asset Allocation. See the table and graph which follow.

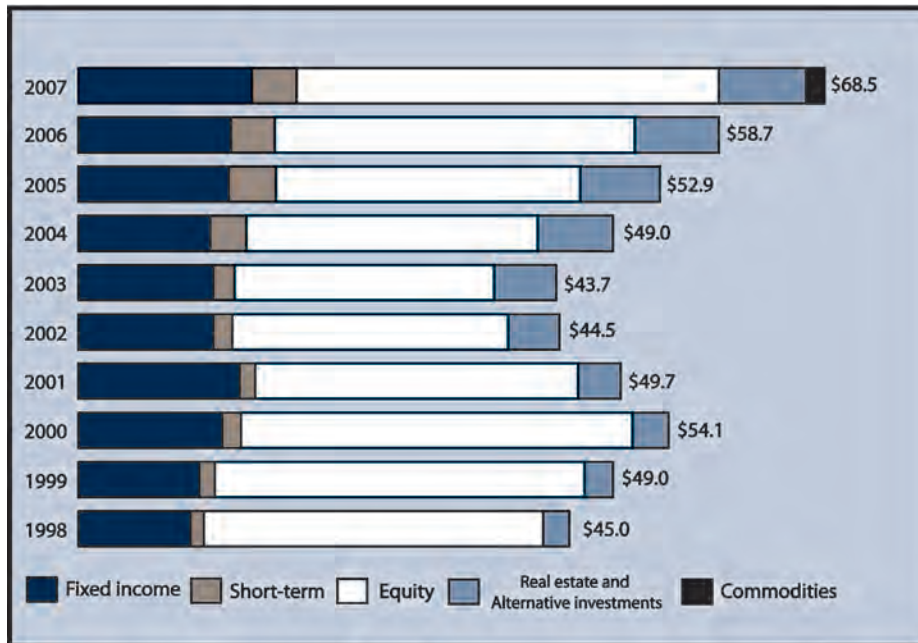
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2007

Asset Category	Plan	Actual
Common and preferred stock (Equity)	58.5%	60.3%
Fixed income	22.0%	20.5%
Real estate	8.0%	8.0%
Alternative investments	9.0%	8.7%
Commodities	2.5%	2.5%
Total	100.0%	100.0%



Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value for the largest asset classes. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, Press Secretary, P. O. Box 125, Harrisburg PA 17108.

Domestic Common and Preferred Stock

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2007

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value (\$)
Exxon Mobil Corporation	4,516	378,793
Security Capital Preferred Growth	9,674	299,204
General Electric Company	7,522	287,938
AT&T Inc.	4,493	186,446
Citigroup Inc.	3,633	186,356
Microsoft Corporation	6,179	182,099
Bank of America Corporation	3,209	156,902
Chevron Corporation	1,720	144,871
Procter & Gamble Company	2,278	139,374
American International Group, Inc.	1,917	134,258
Total of 10 Largest Holdings		2,096,241
Total System Holdings - Domestic Common and Preferred Stock		15,185,715

Collective Trust Funds - Common and Preferred Stock
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2007
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value (\$)
Bridgewater Pure Alpha Fund II Ltd.	690	722,887
Barclays Global Ascent Ltd.	500	641,940
Morgan Stanley Capital International Emerging Markets Free Index	15,336	599,338
First Quadrant Global Macro Fund Ltd.	5,491	584,184
AQR Offshore Multi-Strategy Fund Ltd.	6	555,251
Wellington Trust Company Commodities Portfolio	21,368	317,102
Barclays Global Investors Structured Tier Emerging Market Index	6,247	259,622
Martin Currie Business Trust Global Emerging Markets Fund	19,936	244,217
Barclays Global Investors Emerging Markets Strategic Index Fund	3,784	157,244
Goldman Sachs Blended Currency Fund	12,415	131,638
Total of 10 Largest Holdings		4,213,423
Total System Holdings - Collective Trust Funds - Common and Preferred Stock		4,564,836

International Common and Preferred Stock
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2007
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value (\$)
BP PLC	14,577	176,359
Vodafone Group PLC	49,718	167,382
Nestle SA	398	151,142
UBS AG	2,374	142,551
Siemens AG	951	136,238
Glaxosmithkline PLC	4,867	127,423
Royal Bank of Scotland	9,982	126,772
E.ON AG	755	126,092
Ericsson	29,527	118,243
Toyota Motor Corporation	1,864	117,750
Total of 10 Largest Holdings		1,389,952
Total System Holdings - International Common and Preferred Stock		18,964,922

Domestic and International Fixed Income
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2007
(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value(\$) or No. of Shares	Fair Value (\$)
U.S. Treasury - Inflation Index	01/15/25	2.375	241,567	232,281
U.S. Treasury - Inflation Index	07/15/13	1.875	224,097	214,959
U.S. Treasury - Inflation Index	01/15/26	2.000	211,057	191,171
Germany (Federal Republic)	09/14/07	2.250	140,774	189,423
U.S. Treasury - Inflation Index	07/15/12	3.000	183,318	186,870
U.S. Treasury - Inflation Index	07/15/14	2.000	188,710	181,147
U.S. Treasury - Inflation Index	07/15/15	1.875	180,328	170,410
U.S. Treasury - Inflation Index	01/15/15	1.625	172,873	160,691
U.S. Treasury - Inflation Index	01/15/11	3.500	142,534	146,643
FNMA Pool # 0745275	02/01/36	5.000	144,608	135,867
Total of 10 Largest Holdings				1,809,462
Total System Holdings - Domestic and International Fixed Income				15,919,998

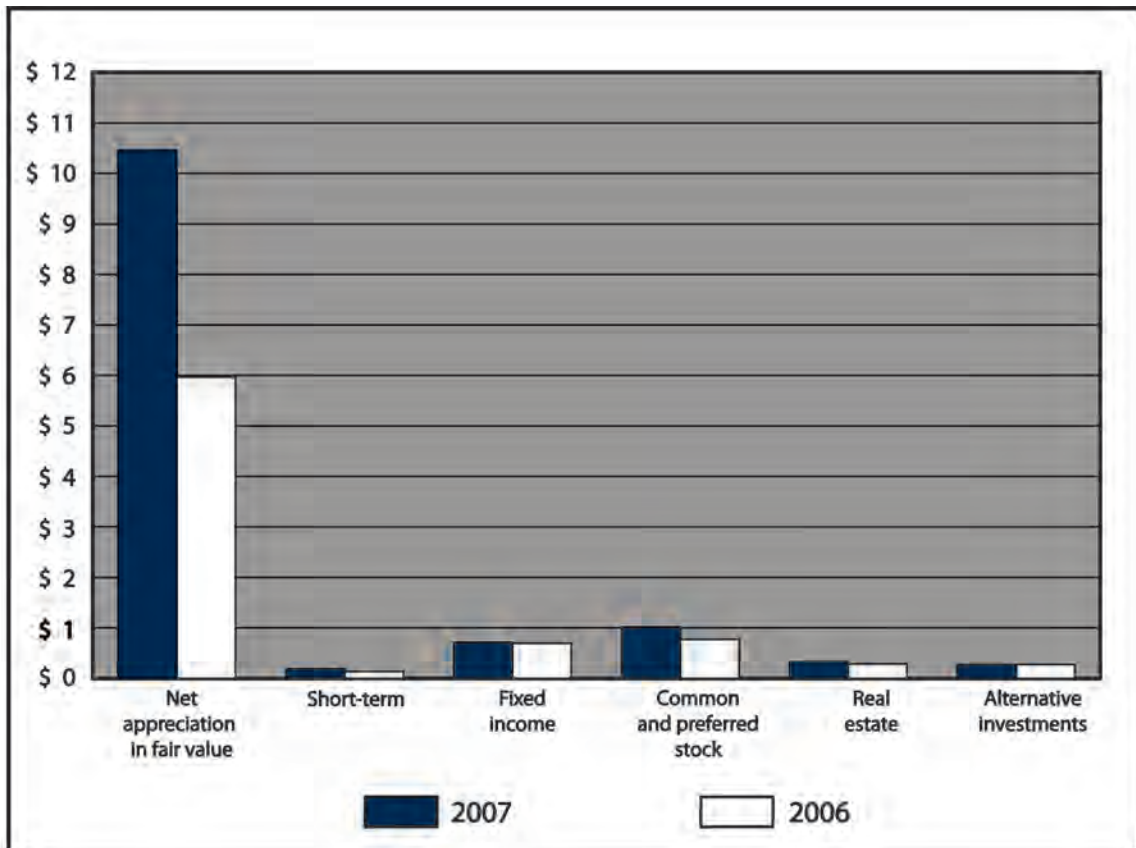
Postemployment Healthcare Investments
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2007
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Fair Value (\$)
PA Treasury Domestic Short-Term Investment Fund	Various	Various	87,901	87,901
M & T Bank Repurchase Agreement	07/01/07	4.375	18,821	18,821
M & T Bank Repurchase Agreement	07/01/07	4.739	7,602	7,602
U.S. Treasury - Inflation Index	01/15/08	3.625	6,395	6,399
FHLB Discount Note	07/20/07	4.950	4,973	4,973
FHLB Discount Note	07/05/07	4.922	4,972	4,972
FNMA Discount Note	08/08/07	4.953	4,970	4,970
FHLMC Multiclass 2714 Class TR	01/15/23	3.250	4,687	4,620
M & T Bank Repurchase Agreement	07/01/07	4.739	3,876	3,876
Daimler Chrysler Auto Trust 2004-A Class A4	04/08/09	2.580	3,076	3,059
Total of 10 Largest Holdings				147,193
Total System Holdings - Postemployment Healthcare Investments				180,725

**Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2007 and 2006
(Dollar Amounts in Thousands)**

Investing Activities	2007	2006
Net appreciation in fair value of investments	\$ 10,457,561	\$ 5,968,866
Short-term	189,800	136,791
Fixed income	713,257	694,888
Common and preferred stock	1,019,322	771,276
Real estate	334,264	285,333
Alternative investments	276,350	273,808
Total investment activity income	\$ 12,990,554	\$ 8,130,962

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2007 were \$32.7 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2007, the System earned \$1.2 million from a commissions recapture program. A list of the brokers receiving fees in excess of \$100,000 during the fiscal year follows:

Summary Schedule of Brokers' Fees
(Cumulative Fiscal Year Amounts Exceeding \$100,000)
Fiscal Year Ended June 30, 2007

Broker Name	Fees Paid (\$)	Broker Name	Fees Paid (\$)
Merrill Lynch	2,858,015	Cantor, Fitzgerald & Company	270,862
UBS Warburg	2,431,715	Daiwa Securities	262,642
Citigroup/Salomon	1,937,819	Exane BNP Paribas	238,740
Bear, Stearns & Company	1,737,971	Cazenove Inc.	230,156
Morgan Stanley & Company	1,712,923	Jefferies & Company Inc.	218,666
Deutsche Bank	1,689,636	Credit Agricole	176,886
J.P. Morgan, Inc.	1,648,072	BNY ConvergeX	175,587
Lehman Brothers	1,332,509	Weeden & Company	155,161
Credit Suisse First Boston	1,225,647	UNX	153,212
Barclays Global Investors	1,108,008	Sanford Bernstein & Company	146,522
Goldman Sachs & Company	1,262,831	Fox Pitt Kelton	143,190
ABN AMRO	876,806	Enskilda Securities	141,685
Nomura Securities International	698,123	Salomon Smith Barney	141,158
MacQuaries Equities	561,792	Samsung Securities	131,620
SG Securities	548,505	Stifel Nicolaus & Company	126,500
Dresdner	483,122	Santander	115,810
Liquidnet Inc.	467,704	RBC Dominion	115,624
Knight Securities	423,804	Helvea	115,501
Credit Lyonnais Securities	421,001	DBS Securities	114,381
Instinet Corporation	383,852	Execution Limited	109,097
HSBC Securities Inc.	298,488	Susquehanna Financial Group	102,928
ITG Securities LTD	288,112	Bank of America	101,644

**Professional Consultants
External Investment Advisors
As of June 30, 2007**

U.S. Enhanced Equity Index Managers

- Acorn Derivatives Management Corporation
- AQR Capital Management, LLC
- Barclays Global Investors
- Bridgewater Associates, Inc.
- First Quadrant, LP
- Pacific Investment Management Company
- Smith Breeden Associates, Inc.

U.S. Style-Oriented Small Cap Equity Managers

- Boston Company Asset Management, LLC (The)
- Emerald Advisors, Inc.
- First Pacific Advisors, Inc.
- Mellon Equity Associates
- NorthPointe Capital
- Wellington Management Company, LLP
- William Blair & Company, LLC

Enhanced U.S. Mid Cap Equity Manager

- Barclays Global Investors

U.S. Micro Cap Equity Managers

- Donald Smith & Company, Inc.
- NorthPointe Capital
- Oberweis Asset Management, Inc.
- Thomson Horstmann & Bryant, Inc.
- Turner Investment Partners

Enhanced Commodity Index Manager

- Credit Suisse Asset Management

Full Discretion Commodity Program Managers

- Deutsche Asset Management, Inc.
- Wellington Management Company, LLP

Publicly-Traded Real Estate Securities Managers

- Cohen & Steers Capital Management, Inc.
- European Investors, Inc.
- LaSalle Investment Management

Professional Consultants (Continued)

Publicly-Traded Real Estate Securities Managers (Continued)

- Morgan Stanley Investment Management, Inc.
- Security Capital Research & Management, Inc.

Non-U.S. Emerging Market Equity Managers

- Batterymarch Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Templeton Investment Counsel, Inc.
- Wellington Management Company, LLP
- William Blair & Company, LLC

Non-U.S. Large Cap Equity Managers

- AllianceBernstein Institutional Investment Management
- Baillie Gifford Overseas Ltd.
- Barclays Global Investors
- Boston Company Asset Management, LLC (The)
- Marathon Asset Management Limited
- Martin Currie, Inc.
- Mercator Asset Management, LP

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management
- AXA Rosenberg Investment Management
- Boston Company Asset Management, LLC (The)
- GlobeFlex Capital, LP
- Wasatch Advisors, Inc.

Active Currency Hedging Overlay Program Manager

- Pareto Investment Management, Ltd.

Active Currency Program Managers

- FX Concepts, Inc.
- Goldman Sachs Asset Management
- Mellon Capital Management

U.S. Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Barclays Global Investors
- BlackRock Financial Management, Inc.
- Delaware Investment Advisers
- Pacific Investment Management Company
- Western Asset Management Company

Professional Consultants (Continued)

U.S. High Yield Fixed Income Manager

- MacKay-Shields Financial Corporation

Treasury Inflation-Protected Securities Managers

- Bridgewater Associates, Inc.
- Brown Brothers Harriman & Co.

Global Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Fischer Francis Trees & Watts, Inc.
- Rogge Global Partners

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- Grosvenor Investment Management U.S., Inc.
- L&B Realty Advisors, LLP
- Laureate Capital, LLC

Real Estate Partnerships

- Apollo Real Estate Finance Corporation
- AvalonBay Value Added Fund, LP
- Avenue Real Estate Fund Parallel, LP
- Berwind Investment Partnership IV, V, & VI
- Blackstone Real Estate Partners V & VI.TE.1, LP
- BPG Co-Investment Partnership, LP
- Broadway Partners Parallel Fund P II & III, LP
- Carlyle Realty Partners III, IV & V, LP
- Centerline Diversified Risk CMBS Fund I & II, LLC
- Centerline RE Special Situations Mortgage Fund, LLC
- CSFB Strategic Partners II & III RE, LP
- DLJ Real Estate Capital Partners II & III, LP
- Fortress Investment Fund IV, LP
- Fortress PSERS Investment, LP
- Hines U.S. Office Value Added Fund, LP
- LF Strategic Realty Investors I & II, LP
- Legg Mason Real Estate Capital I & II, Inc.
- Lehman Brothers / PSERS Real Estate, LP
- Lehman Brothers Real Estate Pension Partners II, LP
- LEM Real Estate Mezzanine Fund II, LP
- Lubert-Adler Real Estate Fund II, III, IV, & V, LP
- Madison Marquette Retail Enhancement Fund, LP
- Morgan Stanley Real Estate Fund II, LP

Professional Consultants (Continued)**Real Estate Partnerships (Continued)**

- Morgan Stanley Real Estate Fund IV Special Domestic, LP
- Morgan Stanley Real Estate Fund IV & V, Special International, LP
- Morgan Stanley Real Estate Fund V, Special U.S., LP
- O'Connor North American Property Partners, LP
- Peabody Global Real Estate Partners, LP
- Prime Property Fund, LLC
- PRISA
- ProLogis North American Industrial Fund, LP
- RREEF America REIT II, Inc.
- Stockbridge Real Estate Fund I & II, LP
- Strategic Partners Value Enhancement Fund, LP
- UBS RESA
- Westbrook Real Estate Fund, LP
- Whitehall Street Real Estate, LP V, V-S, & VII
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Adams Capital Management, LP
- Aisling Capital II, LP
- Allegheny New Mountain Partners, LP
- Baring Asia Private Equity Fund III, LP
- Bear Stearns Merchant Banking Partners II & III, LP
- BG Media Investors, LP
- Blue Point Capital Partners (B), LP
- Bridgepoint Capital II Partnership, LP
- Bridgepoint Europe IA, IIA, & IIIA, LP
- Bruckmann, Rosser, Sherrill & Company, LP
- Capital International Private Equity Fund V, LP
- Catterton Partners V & VI, LP
- Cinven Fund (Fourth), LP (The)
- Clarity Partners, LP
- Co-Investment 2000 Fund, LP (The)
- Co-Investment Fund II, LP (The)
- Commonwealth Venture Partners I & II
- Credit Suisse First Boston Equity Partners, LP
- Credit Suisse First Boston International Equity Partners, LP
- Crestview Capital Partners, LP
- Cross Atlantic Technology Fund I & II, LP
- CSFB Strategic Partners II, III-B, & III-VC, LP
- Deutsche European Partners IV, LP

Professional Consultants (Continued)**Private Equity/Venture Capital Partnerships (Continued)**

- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Growth Capital Partners, LP
- Edgewater Private Equity Fund III, LP
- Edison Venture Fund III, LP
- Evergreen Pacific Partners, LP
- First Reserve Fund XI, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors II & III, LP
- Graham Partners Investments (B), LP
- Green Equity Investors II, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- GS Mezzanine Partners, LP
- Halifax Capital Partners, LP
- Heritage Fund I, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV (PA), LP
- KBL Partnership, LP
- KKR 2006, Fund, LP
- KRG Capital Fund I, II & III, LP
- Landmark Equity Partners II, III, IV, V & XIII
- Landmark Mezzanine Partners, LP
- Lehman Brothers Communications Investors, LP
- Lehman Brothers Merchant Banking Partners II, LP
- Lehman Brothers Venture Partners 2003-P, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP
- LLR Equity Partners I & II, LP
- Milestone Partners II, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- Navis Asia Fund V, LP
- NEPA Venture Fund II
- New Mountain Partners, LP
- New York Life Capital Partners, I, II & III, LP
- P/A Fund (The)
- PAI Europe III & IV, LP
- Palladium Equity Partners II-A, LP
- Pennsylvania Early Stage Partners I & II, LP
- Permira IV, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Platinum Equity Capital Partners-A, LP
- PNC Equity Partners I & II, LP
- Providence Equity Partners VI, LP
- Psilos Group Partners III, LP
- Quadrangle Capital Partners I & II, LP

Professional Consultants (Continued)**Private Equity/Venture Capital Partnerships (Continued)**

- Quaker BioVentures I & II, LP
- SCP Private Equity Partners I & II, LP
- StarVest Partners, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- Sunrise Capital Partners, LP
- TDH III, LP
- Technology Leaders, LP
- TL Ventures III, LP
- TPG Partners I, II & V, LP
- U.S. Equity Partners I & II, LP
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Special Situations Fund II, III & IV, LP
- Avenue Asia Special Situations Fund II, III & IV, LP
- Cerberus Institutional Partners, LP (Series Two, Three and Four)
- Chrysalis Capital Partners, LP
- Gleacher Mezzanine Fund I & II, LP
- Gold Hill Venture Lending 03-A, LP
- GSC Partners CDO Investors III & IV, LP
- GSC Recovery II, LP
- NYLIM Mezzanine Partners Parallel Fund I & II, LP
- Windjammer Senior Equity Fund III, LP

Public Market Emerging Investment Program Managers

- Biondo Group, LLC (The)
- Charter Financial Group, Inc.
- Conestoga Capital Advisors
- Connors Investor Services, Inc.
- Denali Advisors, LLC
- EDMP, Inc.
- Global Capital Management, Inc.
- Hanseatic Management Services, Inc.
- John Hsu Capital Group, Inc.
- Opus Capital Management
- Piedmont Investment Advisors
- Piedra Capital, Inc.
- Profit Investment Management
- Pugh Capital Management, Inc.
- Shah Capital Management, Inc.
- Smithbridge Asset Management, Inc.
- West Chester Capital Advisors

Professional Consultants (Continued)**Alternative Investment Consultant**

- Portfolio Advisors, LLC

Custodian and Securities Lending Agent

- The Bank of New York Mellon Corporation

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Investment Evaluator and General Investment Consultant

- Wilshire Associates Inc.

Proxy Voting Agent

- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

