



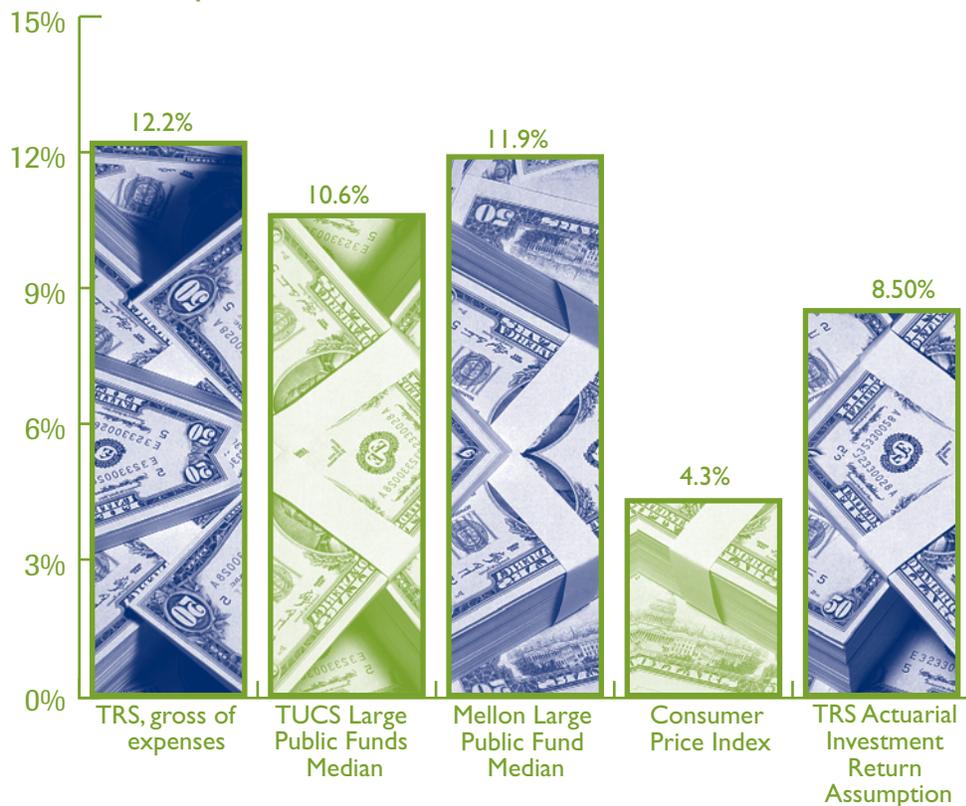
720 OLIVE WAY
SEATTLE, WASHINGTON

Introduction

The TRS investment portfolio had another strong year, returning 12.2 percent, gross of fees. This number follows a successful FY05 performance of 11.1 percent, gross of fees, as all asset classes again produced positive returns. Overall, the U.S. economy remained vibrant and inflation restrained, providing a healthy investment environment. Outside of the U.S., markets were even stronger with stock returns in the high 20 percent range led by continued expansion from emerging market economies. Substantial gains were accumulated in the private markets in FY06 with the TRS private equity portfolio returning 23.8 percent, net of fees, and the TRS real estate portfolio generating an 18.8 percent return, net of fees.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top quartile of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2006



Source: R.V. Kuhns & Associates, Inc., Wilshire Associates, The Northern Trust Company

Total TRS investments, including accrued income, increased by more than \$2.4 billion during the year ended June 30, 2006. All asset classes had another positive year with international equity and private equity leading the way. Real estate had another stellar year, while domestic equity returns were a bit below historic norms and returned high single digits. Fixed income was flat in FY06, net of fees.

The TRS portfolio is fully diversified across different asset classes. A number of investment managers within each asset class ensure the appropriate mixture across the various investment styles,

allowing the portfolio to achieve broad exposure to the market while minimizing risk. This broad diversification serves as the best defense against the uncertainty of volatile world markets.

The TRS trust fund is invested by authority of the Illinois Pension Code under the “prudent person rule,” requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS’s investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

As master trustee, The Northern Trust Company has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2005 through June 30, 2006. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2006. Additionally, The Northern Trust Company calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of The Northern Trust Company, prepared the Investment Section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2006

| | |
|--------------------------------|----------------------------------|
| Total Fund Market Value | \$37.580 billion |
| One-Year Return (net of fees) | 11.8% |
| Five-Year Return (net of fees) | 7.9% |
| Ten-Year Return (net of fees) | 9.0% |
| Percent Externally Managed | 100.0% |
| Number of External Managers | 101 |
| Custodian | The Northern Trust Company |
| General Consultant | R. V. Kuhns and Associates, Inc. |

TRS is ranked 32nd out of the top 200 U.S. pension funds/plan sponsors in the January 23, 2006, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2005.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2006, TRS’s total investments, including accrued investment income, at market value totaled \$37.580 billion, an increase of \$2.432 billion from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the financial statements located on pages 26 and 27.

TRS had a total fund annualized return of 12.2 percent, gross of fees, and 11.8 percent, net of fees, for the one-year period ending June 30, 2006. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS’s total return for FY06 surpassed the policy index return of 11.3 percent for the year ended June 30, 2006. The policy index represents a weighted average of each asset class benchmark, based on the total fund’s target asset allocation. By exceeding the policy index, TRS showed consistent outperformance across its asset classes.

The total return also surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

Performance Summary (Net of fees)

| Asset Class/Index | Years ended June 30 | | | | | Annualized at 6/30/06 | | |
|-----------------------------------|---------------------|--------------|--------------|---------------|---------------|-----------------------|-------------|-------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 3 Years | 5 Years | 10 Years |
| TRS Total Fund | 11.8% | 10.8% | 16.5% | 4.9% | (3.2%) | 13.0% | 7.9% | 9.0% |
| TRS Weighted Policy Index | 11.3 | 10.7 | 16.0 | 3.9 | (4.2) | 12.6 | 7.3 | 8.2 |
| CPI (Inflation) | 4.3 | 2.5 | 3.3 | 2.1 | 1.1 | 3.4 | 2.7 | 2.6 |
| TRS Equity - U.S. | 9.6 | 8.1 | 21.6 | 0.5 | (15.2) | 13.0 | 4.2 | 8.1 |
| Russell 3000 Index | 9.6 | 8.1 | 20.5 | 0.8 | (17.2) | 12.6 | 3.5 | 8.6 |
| TRS Fixed Income* | 0.1 | 6.6 | 0.7 | 10.7 | 9.7 | 2.5 | 5.5 | 6.1 |
| TRS Weighted Fixed Income Index | (0.7) | 6.8 | 0.3 | 11.1 | 10.0 | 2.1 | 5.4 | 5.6 |
| Lehman Brothers Aggregate Index | (0.8) | 6.8 | 0.3 | 10.4 | 8.6 | 2.1 | 5.0 | 6.2 |
| TRS Equity - International | 27.3 | 17.3 | 32.8 | (5.2) | (6.8) | 25.6 | 11.9 | 8.5 |
| Non-U.S. Equity Index | 28.4 | 17.0 | 32.5 | (4.2) | (8.2) | 25.8 | 11.9 | 7.2 |
| TRS Real Estate | 18.8 | 19.9 | 13.2 | 8.8 | 2.4 | 17.3 | 12.4 | 12.1 |
| Real Estate Property Index | 18.7 | 18.0 | 10.8 | 7.7 | 5.6 | 15.8 | 12.0 | 11.0 |
| TRS Private Equity | 23.8 | 20.0 | 10.3 | (11.4) | (12.7) | 17.9 | 4.8 | 19.5 |
| Russell 3000 Index + 3.0%** | 12.9 | 11.3 | 24.1 | 3.8 | (14.7) | 16.0 | 6.7 | 7.3 |
| TRS Short-Term Investments | 4.2 | 2.2 | 1.1 | 1.5 | 2.7 | 2.5 | 2.3 | 4.0 |
| ML 91-Day Mark to Markets Index | 4.0 | 2.2 | 1.0 | 1.5 | 2.7 | 2.4 | 2.3 | 3.8 |

The following chart shows the yearly returns for the previous benchmarks.

| Asset Class/Index | Years ended June 30 | | | | |
|--|---------------------|------|------|------|-------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| TRS Fixed Income - US* | - | - | - | - | 8.1% |
| Citigroup Broad | - | - | - | - | 8.5 |
| TRS Fixed Income - International* | - | - | - | - | 15.9 |
| Non-U.S. Bond Index | - | - | - | - | 15.8 |

* During FY03, U.S. fixed income was combined with international fixed income to create a total fixed income asset class. The benchmark assigned to total fixed income is a weighted benchmark, based upon the Lehman Brothers Aggregate Index and the Barclay's Global Investors Global Inflation-Linked Unhedged Index. The TRS fixed income returns provided are the combined U.S. fixed income and international fixed income returns for prior periods and the current fixed income return.

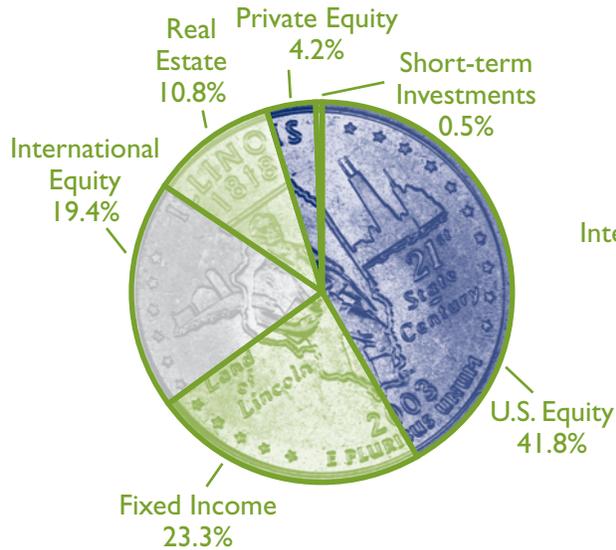
** Index compounded monthly.

Note: Rates of return provided by the Northern Trust Company.

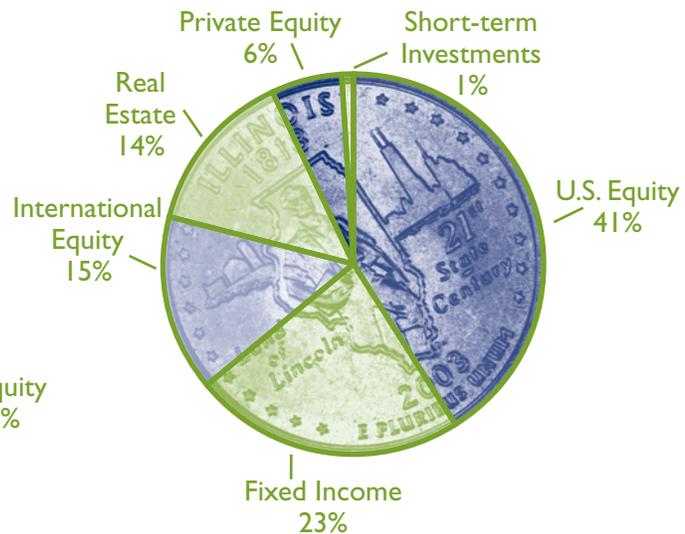
Asset Allocation vs. Targets

A pension fund's most important investment policy decision is the selection of its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY06 Asset Allocation



Long-term Target Allocation



From an asset allocation standpoint during FY06, TRS made no major changes to the target weightings and structure adopted in 2002. Over the past year, domestic equity's actual percentage dropped from 44.4 percent to 41.8 percent due to TRS's need to meet its obligation to its beneficiaries; it is not due to underperformance of this asset class. TRS continues to make investments in private equity and real estate as it attempts to increase the weightings of these asset classes up to target levels and is comfortable with the recent pace of investment. Private equity now stands at 4.2 percent with a longer term policy target of 6.0 percent.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are necessary. The Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees in April 2002, compared to the total assets assigned to each particular asset class at June 30, 2006.

Strategic Investment Listing Allocation Targets vs. Total Assets

| | 6/30/06 | FY06 | | | FY05 | |
|-------------------------------|--------------------------|-------------------|-------------------|------------------|-------------------|------------------|
| | Total Fund \$ Million | Actual Percent | Interim Target | Policy Target | Actual Percent | Policy Target |
| U.S. Equities | \$15,254 | 41.8% | 43% | 41% | 44.4% | 41% |
| Fixed Income | 8,520 | 23.3 | 25 | 23 | 24.1 | 23 |
| International Equities | 7,082 | 19.4 | 15 | 15 | 17.5 | 15 |
| Real Estate | 3,946 | 10.8 | 12 | 14 | 10.5 | 14 |
| Private Equity | 1,514 | 4.2 | 4 | 6 | 3.2 | 6 |
| Short-Term Investments | 181 | 0.5 | 1 | 1 | 0.3 | 1 |
| Pending Settlements/Expenses* | 1,083 | NA | NA | NA | NA | NA |
| Total Fund | \$37,580 | 100.0% | 100% | 100% | 100.0% | 100% |

* The liability portion is placed within the Statements of Plan Net Assets.

Portfolio Securities Summary

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the Strategic Investment Listing. The strategic listing represents assets assigned to managers within each asset class, whereas the security summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within its portfolio. For example, a U.S. equity manager holds not only common stock within its portfolio, but it may hold small amounts of short-term investments as well.

The principal differences between the strategic investment approach and the Portfolio Securities summary are:

- The Pacific Investment Management Company StocksPlus and Western Asset Management enhanced assignments are treated as equity on the Strategic Investment Listing, but they are categorized as bonds and corporate obligations in the securities summary. These managers provide enhanced index products that use both fixed income and futures to achieve an enhanced equity return.
- Short-term investments included within a manager's portfolio are categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. In the securities summary, these investments are categorized as short-term investments.

Portfolio Securities Summary

| | 2006 | | 2005 | |
|---|-------------------------|---------------|-------------------------|---------------|
| | Market Value | % of Total | Market Value | % of Total |
| U.S. Government Obligations | | | | |
| U.S. Treasuries | \$1,433,704,715 | 3.8% | \$1,957,811,175 | 5.6% |
| U.S. Federal Agencies | 1,612,335,642 | 4.3 | 1,331,356,248 | 3.8 |
| U.S. Government Index Linked Bonds | 263,914,841 | 0.7 | 346,564,816 | 1.0 |
| U.S. Government Backed Mortgages | 2,818,412,775 | 7.5 | 2,371,367,541 | 6.7 |
| U.S. Municipals (Taxable) | 11,619,751 | 0.0 | 12,527,227 | 0.0 |
| Total U.S. Government Obligations | 6,139,987,724 | 16.3 | 6,019,627,007 | 17.1 |
| U.S. Corporate Obligations | | | | |
| Asset Backed Securities | 721,905,881 | 1.9 | 614,698,386 | 1.8 |
| Commercial Mortgage Backed Securities | 527,255,346 | 1.4 | 287,002,709 | 0.8 |
| Collateralized Mortgage Obligations | 781,486,169 | 2.1 | 587,153,543 | 1.7 |
| Commingled/Closed End Funds | 77,089,595 | 0.2 | 668,564,763 | 1.9 |
| Corporate Convertible Bonds | 2,945,437 | 0.0 | - | - |
| Credit Obligations | | | | |
| Financial | 955,446,107 | 2.5 | 565,452,732 | 1.6 |
| Industrial | 544,794,865 | 1.5 | 821,791,248 | 2.3 |
| Utilities | 133,348,472 | 0.4 | 101,749,141 | 0.3 |
| Total U.S. Corporate Obligations | 3,744,271,872 | 10.0 | 3,646,412,522 | 10.4 |
| Swaps/Swaptions | (3,157,583) | (0.0) | - | - |
| Foreign Debt Obligations | 656,883,773 | 1.7 | 659,701,554 | 1.9 |
| Total Bonds, Corporate Notes, and Government Obligations | 10,537,985,786 | 28.0 | 10,325,741,083 | 29.4 |
| Equities | | | | |
| Common Stock - U.S. | 12,575,262,796 | 33.5 | 12,499,580,367 | 35.6 |
| Preferred Stock - U.S. | 37,767,710 | 0.1 | 60,156,653 | 0.2 |
| Common Stock - International | 7,244,296,966 | 19.3 | 6,118,615,710 | 17.4 |
| Preferred Stock - International | 174,064,874 | 0.5 | 108,842,145 | 0.3 |
| Total Equities | 20,031,392,346 | 53.4 | 18,787,194,875 | 53.5 |
| Short-term Investments | 1,516,251,424 | 4.0 | 1,413,132,556 | 4.0 |
| Foreign Currency | 34,040,496 | 0.1 | 28,166,730 | 0.1 |
| Private Equity | 1,513,997,646 | 4.0 | 1,068,633,225 | 3.0 |
| Real Estate Equity | 3,946,280,351 | 10.5 | 3,525,456,881 | 10.0 |
| TRS Total Portfolio | \$37,579,948,049 | 100.0% | \$35,148,325,350 | 100.0% |

Reconciliation of TRS Portfolio Securities Summary to Total Investments

| | 2006 | 2005 |
|----------------------------------|-------------------------|-------------------------|
| TRS Total Portfolio | \$37,579,948,049 | \$35,148,325,350 |
| Less accrued income | (243,067,231) | (249,963,566) |
| Investments at fair value | \$37,336,880,818 | \$34,898,361,784 |

Securities Holdings (Historical)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

Securities Holdings for Years Ending June 30

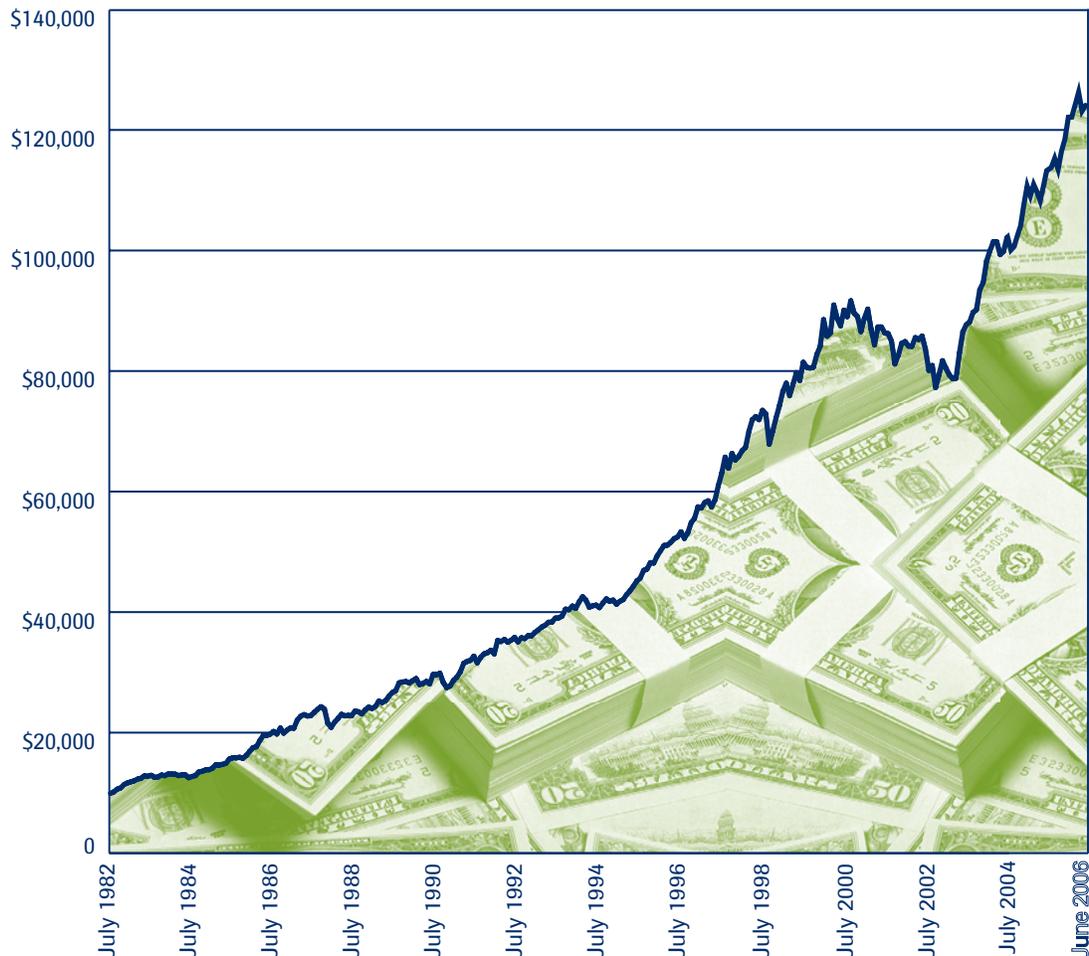
| Asset Type | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|---------------|---------------|
| Bonds, Corporate Notes, and Government Obligations | 28.0% | 29.4% | 28.2% | 30.3% | 37.9% |
| Equities - International | 19.8 | 17.7 | 16.7 | 13.9 | 14.4 |
| Equities - U.S. | 33.6 | 35.8 | 40.9 | 38.6 | 29.3 |
| Private Equity | 4.0 | 3.0 | 2.6 | 2.8 | 2.6 |
| Real Estate Equity | 10.5 | 10.0 | 8.3 | 10.0 | 9.5 |
| Short-Term Investments/Currency | 4.1 | 4.1 | 3.3 | 4.4 | 6.3 |
| Totals | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: TRS

Note: During FY03, the U.S. fixed income asset class was combined with the international fixed income asset to create a total fixed income asset class. TRS's allocation percentage of bonds for prior years is the combined total of U.S. bonds and international bonds.

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 over the last 24 years. Despite the economic downturn in 2000 through 2003, the overall trend is solidly favorable.

Growth of \$10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ending June 30, 2006.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in a public corporation. TRS invests in equities because the asset class offers the opportunity to participate in the success of the economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio returned 9.6 percent on a net of fee basis, in line with the Russell 3000 Index return of 9.6 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

| | FY06 | 3-Year | 5-Year | 10-Year |
|-------------------------|-------------|---------------|---------------|----------------|
| TRS, net of fees | 9.6% | 13.0% | 4.2% | 8.1% |
| Russell 3000 Index | 9.6 | 12.6 | 3.5 | 8.6 |

At June 30, 2006, 41.8 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed U.S. equity managers to use active, index, or enhanced index management strategies during FY06.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2006, are listed below and represent 11.4 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 U.S. Equity Holdings at June 30, 2006

| Firm | Market Value |
|----------------------|-------------------------------|
| General Electric Co. | \$226,825,051 |
| Exxon Mobil Corp. | 194,288,517 |
| Citigroup, Inc. | 176,535,775 |
| Pfizer, Inc. | 157,261,439 |
| Hewlett-Packard Co. | 126,546,932 |
| Chevron Corp. | 122,811,030 |
| Microsoft Corp. | 114,343,329 |
| Comcast Corp. | 112,716,715 |
| Cisco Systems, Inc. | 108,328,184 |
| ConocoPhillips | 99,137,323 |
| Total | <u>\$1,438,794,295</u> |

Source: *The Northern Trust Company*

As of June 30, 2006, TRS employed 22 domestic equity managers. The following chart lists the managers and assets under management.

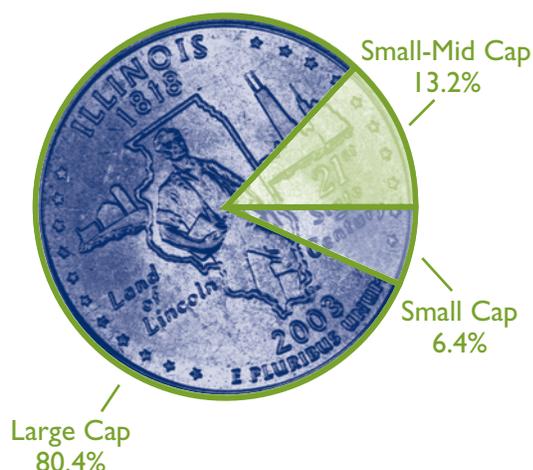
U.S. Equity Managers and Assets Under Management (Inception date of account)

| | |
|--|---------------|
| Index | |
| RhumbLine Advisors, L.P. (5/06) | \$428,569,910 |
| State Street Global Advisors (1/06) | 1,524,984,689 |
| Enhanced Index | |
| Barclays Global Investors (6/05) | 990,370,626 |
| Pacific Investment Management Company, L.L.C. (8/91) | 937,762,903 |
| T. Rowe Price Associates, Inc. (6/05) | 981,764,094 |
| Western Asset Management Company, L.L.C. (4/05) | 972,965,671 |
| Large Cap Value | |
| Boston Partners Asset Management, L.P. (1/03) | 862,223,512 |
| Dodge & Cox (4/00) | 1,892,138,065 |
| EARNEST Partners, L.L.C. (2/02) | 183,824,379 |
| Great Lakes Advisors, Inc. (9/02) | 162,534,916 |
| Large Cap Growth | |
| Holland Capital Management, L.P. (2/02) | 315,598,501 |
| State Street Global Advisors-Russell 1000 Growth (12/05) | 347,980,948 |
| Turner Investment Partners, Inc. (6/04) | 1,168,233,419 |
| Voyageur Asset Management, Inc. (11/04) | 756,121,176 |
| Small/Mid Cap Core | |
| State Street Global Advisors-Russell Completeness (6/02) | 447,617,709 |
| Small/Mid Cap Value | |
| LSV Asset Management (12/02) | 720,339,910 |
| State Street Global Advisors-Optimized Russell 2500 Value (6/06) | 204,147,868 |
| Small/Mid Cap Growth | |
| Delaware Investment Advisers (12/02) | 352,968,915 |
| Mazama Capital Management, Inc. (1/03) | 369,879,822 |
| Tygh Capital Management, Inc. (6/06) | 397,924,765 |
| Small Cap Growth | |
| Batterymarch Financial Management, Inc. (11/04) | 244,766,835 |
| Emerald Advisors, Inc. (11/04) | 259,202,178 |
| Mazama Capital Management, Inc. (11/04) | 110,153,243 |
| Small Cap Value | |
| Byram Capital Management, L.L.C. (11/04) | 203,385,987 |
| Thompson, Siegel & Walmsley, Inc. (11/04) | 261,856,870 |
| State Street Global Advisors-Optimized Russell 2000 Value (8/04) | 106,754,472 |
| Emerging Manager | |
| NCM Capital Advisors, Inc. (5/06) | 49,566,996 |

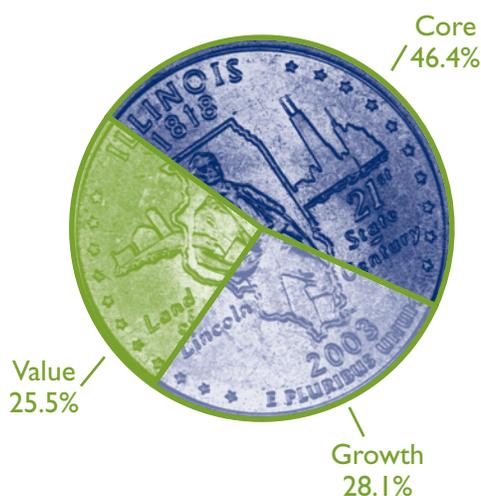
Discussion of U.S. Equity

The long-term target for TRS investments in U.S. equities is 41 percent. Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization



Market Style



Source: TRS Investment Policy

The 9.6 percent return for the Russell 3000 was slightly below the historical annual return for the broad stock market of just over 10 percent. Overall, performance was generally consistent with the previous two fiscal years. Small cap stocks outperformed large cap stocks, and value stocks outperformed growth stocks. Small cap stocks had a meteoric and unexpected rise in the first three months of calendar 2006, followed by a somewhat predictable fall in the subsequent three months.

New additions to TRS's pool of managers include Tygh Capital, a small-mid cap growth manager based in Portland, Oregon, and NCM Capital Advisors, a mid cap growth manager based in Durham, North Carolina. NCM was funded through the new Emerging Manager program, which seeks to fund quality managers that would otherwise be too small for consideration. In addition, a new index manager, Boston-based RhumbLine Advisors, was hired to manage an S&P 500 portfolio. Bear Stearns Asset Management, J&W Seligman, Sands Capital Management, Northern Trust, and Ariel Capital Management were all terminated during the year for either organizational or performance reasons.

Statistical Data

The following tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investible U.S. equity market.

TRS Domestic Equity as of June 30, 2006

| Characteristic | TRS Domestic Equity | Russell 3000 Index |
|--|---------------------|--------------------|
| Weighted Average Market Cap (billions) | \$51.9 | \$70.0 |
| Price/Earnings Ratio | 17.2x | 17.7x |
| Dividend Yield | 1.4% | 1.8% |
| 5-Year EPS Growth | 19.2% | 15.8% |
| Price/Book Ratio | 2.6x | 2.7x |

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2006

| Sector | TRS Domestic Equity Weighting | Russell 3000 Index Weighting |
|----------------------------|--|---|
| Consumer Discretionary | 11.4% | 15.1% |
| Consumer Durables | 8.3 | 6.7 |
| Energy | 9.0 | 10.2 |
| Financial Services | 21.9 | 19.2 |
| Health Care | 12.5 | 13.3 |
| Industrials | 11.6 | 11.5 |
| Materials | 3.4 | 3.5 |
| Technology | 15.1 | 15.7 |
| Telecommunication Services | 3.1 | 2.0 |
| Utilities | 3.7 | 2.8 |
| Total | 100.0% | 100.0% |

Source: The Northern Trust Company

International Equity

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multinationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2006, the international equity asset class returned 27.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index in the following and future references) return of 28.4 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

| | FY06 | 3-Year | 5-Year | 10-Year |
|-------------------------|--------------|---------------|---------------|----------------|
| TRS, net of fees | 27.3% | 25.6% | 11.9% | 8.5% |
| Non-U.S. Equity Index | 28.4 | 25.8 | 11.9 | 7.2 |

At June 30, 2006, 19.4 percent of the TRS investment portfolio was assigned to international equity managers. The following table lists the top 10 international equity holdings of active managers as of June 30, 2006. As is evident in the holdings list, these investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy. These securities represent 12.2 percent of the total international equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 International Equity Holdings at June 30, 2006

| Firm | Country | Market Value (USD) |
|--------------------------------|----------------|-----------------------------|
| GlaxoSmithKline | United Kingdom | \$163,097,434 |
| Nestle | Switzerland | 96,396,225 |
| BP | United Kingdom | 95,433,041 |
| Novartis AG | Switzerland | 94,429,625 |
| Takeda Pharmaceutical | Japan | 85,329,134 |
| Royal Bank of Scotland Group | United Kingdom | 78,723,787 |
| Canon, Inc. | Japan | 78,537,055 |
| Telefonica | Spain | 74,000,333 |
| Total SA | France | 71,459,715 |
| Roche Holdings AG Genusscheine | Switzerland | 67,623,485 |
| Total | | <u>\$905,029,834</u> |

Source: *The Northern Trust Company*

As of June 30, 2006, TRS employed nine international equity managers. The following chart lists these managers and the assets under management.



International Equity Managers and Assets Under Management (inception date of account)

Active Core

| | |
|---|-----------------|
| Brandes Investment Partners, L.P. (2/98) | \$1,071,944,544 |
| Harris Associates L.P. (3/03) | 509,112,212 |
| INVESCO Global Asset Management (N.A.), Inc. (6/00) | 1,021,820,668 |
| Jarislowsky, Fraser Limited (8/05) | 468,885,185 |
| McKinley Capital Management, Inc. (8/05) | 513,969,078 |
| Mondrian Investment Partner Limited (4/93) | 1,059,343,038 |
| Pyramis Global Advisors (6/03) | 1,067,212,352 |
| State Street Global Advisors-Optimized EAFE Growth (8/05) | 474,131,247 |

Emerging Markets

| | |
|---|-------------|
| Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03) | 895,721,969 |
|---|-------------|

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

International Equity Manager Structure

Target

International Equity Classification

| | |
|------------------|---------------|
| Passive Non-U.S. | 75% |
| Active Core | 82.5 |
| Emerging Markets | 10.0 |
| Total | 100.0% |

International equity markets continued to post impressive results for the year ended June 30, 2006, returning 28.4 percent as measured by the Non-U.S. Equity Index. The emerging markets, which are the developing economies in the international markets and represent a 13.4 percent weighting in the international index, propelled the international advances and were up 34.9 percent. Within the emerging markets, the Europe, Middle East, and African (EMEA) region was the most impressive gainer, led by Russia's rise of 105.1 percent. Russia, an oil producing country, greatly benefited from the rise in crude oil prices and the strong performance from the energy sector. The energy sector led all international equity sectors last year returning 38.9 percent. For the first time since 1999, Japan was the best performing developed international market for the year ended June 2006, rallying by 36.0 percent. Japan was driven by better relative economic growth and more transparency into the financial services markets. Europe appreciated by 14.0 percent, which was slightly ahead of the U.S. domestic advances.

The TRS international equity portfolio had strong results for FY06 returning 27.3 percent, net of fees. Despite the impressive return, the portfolio underperformed its index by 1.1 percent, primarily due to an underexposure to Japan and Canada, regions that returned in excess of 32 percent.

On the sector level, TRS was underexposed to energy and basic materials, which are industries often considered much more cyclical in nature and not possessing the quality long-term characteristics sought by TRS's international equity managers. Energy and materials were the top two performing sectors. Overall, the TRS international portfolio proved to be too defensive in early 2006 when a more balanced portfolio would have performed well.

Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

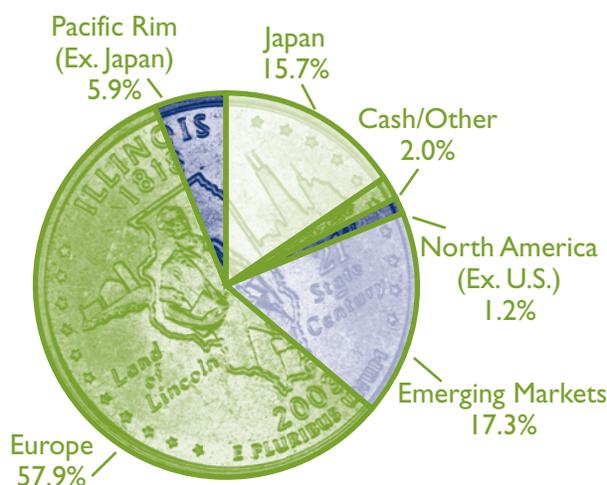
International Equity Fundamental Characteristics

| Characteristic | TRS International Equity | Non-U.S. Equity Index |
|--|--------------------------|-----------------------|
| Weighted Average Market Cap (billions) | \$48.7 | \$48.8 |
| Price/Earnings Ratio | 14.9x | 15.8x |
| Dividend Yield | 2.6% | 2.5% |
| Price/Book Ratio | 2.3x | 2.3x |

Source: The Northern Trust Company and Wilshire Associates

Regional Allocation Comparison June 30, 2006

TRS International Equity Exposure



Global Fixed Income

Fixed income is a financial obligation of an entity including, but not limited to, corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The issuer of debt is the borrower of capital and the purchaser, or holder of bonds, is the creditor or lender.

Fixed income is an important asset class as, in a well-diversified portfolio, these investments can reduce volatility, offer negative correlation to other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2006, TRS fixed income managers earned a 0.1 percent return, net of fees, compared to the (0.7) percent return of the benchmark, the Fixed Income Blended Index. The blended index is a weighted index, based on U.S., non-dollar and global inflation-linked targets. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

| | FY06 | 3-Year | 5-Year | 10-Year |
|--------------------------------|-------|--------|--------|---------|
| TRS, net of fees | 0.1% | 2.5% | 5.5% | 6.1% |
| TRS Fixed Income Blended Index | (0.7) | 2.1 | 5.4 | 5.6 |

As of June 30, 2006, TRS employed 12 fixed income managers overseeing assets of over \$8.5 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, core, global inflation-linked, emerging manager, and enhanced indexed. It excludes fixed income assets managed by other asset classes as part of other underlying strategies.

Core plus managers are firms with particular skills in the extended bonds markets, such as high yield, non-dollar denominated, and out-of-benchmark investments. Following defined parameters, these managers are able to offer enhanced returns while maintaining a similar risk profile to that of a core manager.

Global Fixed Income Managers and Assets Under Management (inception date of account)

| | |
|--|-----------------|
| Core Plus | |
| BlackRock, Inc. (6/97) | \$1,309,021,347 |
| Goldman Sachs Asset Management, L.P. (5/06) | 84,124,091 |
| ING Investment Management Company (5/06) | 651,649,899 |
| Pacific Investment Management Company, L.L.C. (7/82) | 1,651,337,191 |
| Payden & Rygel (6/97) | 635,556,129 |
| Weiss, Peck & Greer/Robeco USA (12/91) | 828,455,374 |
| Core | |
| Dodge & Cox (11/03) | 835,290,466 |
| EARNEST Partners Limited, L.L.C. (2/02) | 211,610,412 |
| Taplin, Canida & Habacht (3/04) | 422,453,804 |
| Global Inflation-Linked | |
| Western Asset Management Company (2/05) | 427,584,729 |
| Emerging Manager | |
| Dolan McEniry Capital Management, L.L.C. (5/06) | 24,934,298 |
| Enhanced Indexed | |
| Lehman Brothers Asset Management, L.L.C. (2/06) | 654,248,617 |

The following table lists the top 10 fixed income securities held by TRS's managers as of June 30, 2006. These securities represent 9.4 percent of the total fixed income assets. To-be-announced (TBA) mortgages are underlying contracts on mortgage-backed securities (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2006

| Security/Position | Rate | Maturity Date | Market Value |
|---|-------------|----------------------|----------------------|
| Federal National Mortgage Association TBA | 5.00% | 1/15/2036 | \$233,260,737 |
| Federal National Mortgage Association TBA | 6.00 | 7/15/2034 | 128,272,482 |
| Federal National Mortgage Association TBA | 4.50 | 8/15/2018 | 127,533,150 |
| Federal National Mortgage Association TBA | 5.00 | 12/15/2020 | 85,671,012 |
| U.S. Treasury Notes | 5.13 | 5/15/2016 | 83,473,055 |
| U.S. Treasury Notes | 4.88 | 4/30/2008 | 76,656,483 |
| U.S. Treasury Notes | 4.50 | 11/15/2015 | 75,757,088 |
| U.S. Treasury Notes | 4.88 | 5/15/2009 | 60,516,852 |
| U.S. Treasury Notes | 3.63 | 6/30/2007 | 59,390,708 |
| U.S. Treasury Notes | 3.13 | 5/15/2007 | 58,898,460 |
| Total | | | \$989,430,027 |

Source: *The Northern Trust Company*

Discussion of Global Fixed Income

At June 30, 2006, 23.3 percent of TRS's investment portfolio was assigned to fixed income managers, just slightly under the interim target of 25.0 percent. Overall, TRS returned 0.1 percent, net of fees, compared to the Lehman Brothers Aggregate Index return of (0.7) percent, or exceeding the benchmark by 80 basis points.

As seen in the performance chart, longer-term returns continue to exceed the benchmark as evidenced by the outperformance over the one-, three-, five- and 10-year periods. The 10-year annualized fixed income return, net of fees, is 6.1 percent relative to the blended benchmark return of 5.6 percent, or in excess of 50 basis points.

The Federal Reserve continued its "measured pace" tightening throughout the year, raising the federal funds target rate eight times over the past year from 3.25 percent to a level of 5.25 percent at June 30, 2006. However, atypical during federal tightening cycles, long-term rates actually declined amidst rising headline inflation.

As a result of rising interest rates, as interest rates and bond prices moved inversely, TRS external managers maintained a defensive posture for most of the year. In addition, the credit rating downgrades of Ford and General Motors, and subsequent price depreciation, slightly reduced the portfolio's return. Positive relative performance was generated from inflation-indexed securities, mortgage positions, and various extended markets positions, primarily in emerging market debt.

The following data provides statistical information on TRS's global fixed income portfolio.

Statistical Data Global Fixed Income Profile

| Characteristic | TRS Fixed Income Portfolio 6/30/06 | Lehman Brothers Aggregate Bond Index 6/30/06 | TRS Fixed Income Portfolio 6/30/05 | Lehman Brothers Aggregate Bond Index 6/30/05 |
|----------------------------------|---|---|---|---|
| Average Maturity | 7.3 years | 7.4 years | 6.6 years | 6.8 years |
| Effective Duration | 4.7 years | 5.0 years | 4.1 years | 4.2 years |
| Average Coupon | 5.1% | 5.2% | 4.7% | 5.2% |
| Average Quality Rating (Moody's) | AAA | AA+ | Aa1 | Aa1 |
| Current Yield | 5.3% | 5.2% | 4.8% | 5.0% |

Source: Lehman Brothers, BGI, and TRS

Global Fixed Income Managers Sector Weighting

| TRS Fixed Income Portfolio | 6/30/06 |
|---|----------------|
| U.S. Treasury | 16.0% |
| Government Bonds – Foreign | 1.0 |
| U.S. Federal Agency | 10.1 |
| Agency Bonds – Foreign | 0.2 |
| Asset Backed Securities – U.S. and Foreign | 6.1 |
| U.S. Mortgage-Backed Securities | 30.9 |
| Commercial Mortgage Backed and Collateralized Mortgages | 11.5 |
| U.S. Corporate or Credit Securities | 16.2 |
| Corporate or Credit Securities – Foreign | 1.8 |
| Inflation-Linked Securities – U.S. and Foreign | 5.0 |
| Municipal and Province | 0.2 |
| Preferred Stock | 0.3 |
| Net Short-term Investments | 0.7 |
| Total | 100.0% |
| Total U.S. and Non-U.S. Futures Exposure | 19.3% |
| Total Foreign Currency Exposure | 4.8 |
| Total Swap Exposure – Ex-Swaptions | 3.7 |
| Total High Yield Exposure | 5.0 |
| Total Emerging Markets Debt Exposure | 1.2 |

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

| Moody's Quality Rating | 06/30/06 | 06/30/05 |
|-------------------------------|-----------------|-----------------|
| Agency | 15.2% | 13.1% |
| Treasury | 13.6 | 19.0 |
| Aaa | 50.2 | 43.9 |
| Aa1 through Aa3 | 5.5 | 9.1 |
| A1 through A3 | 4.5 | 4.3 |
| Baa1 through Baa3 | 5.1 | 7.0 |
| Ba1 through Ba3 | 3.3 | 2.2 |
| B1 through B3 | 1.2 | 0.7 |
| Other* | 1.4 | 0.7 |
| Total | 100.0% | 100.0% |

* Other includes under B3 and unrated securities.

Note: Chart includes Enhanced Equity Indexed underlying bond holdings

Source: The Northern Trust Company and TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital to start-up companies and for continued growth in companies, privately held firms, and firms that are restructuring to better compete. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is

widely diversified across all sub-sectors within private equity, including buyout, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance using the Russell 3000 stock index plus 300 basis points (3 percentage points). The benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ending June 30, 2006, private equity outperformed the benchmark by 10.9 percent.

In general, an investor must look at a much longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term result as well, outperforming the benchmark by 12.2 percent over the 10-year period. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

| | FY06 | 3-Year | 5-Year | 10-Year |
|---------------------------|--------------|---------------|---------------|----------------|
| TRS, net of fees | 23.8% | 17.9% | 4.8% | 19.5% |
| Russell 3000 Index + 3.0% | 12.9 | 16.0 | 6.7 | 7.3 |

At June 30, 2006, 4.2 percent of the TRS investment portfolio was assigned to the private equity asset class. TRS has hired, or made commitments to, 66 private equity partnerships/funds. The following chart lists the partnerships and the current assets under management.

Private Equity Partnerships and Assets Under Management (inception date of account)

Buyout

| | |
|--|---------------|
| Apollo Investment Fund V, L.P. (5/01) | \$120,188,894 |
| Apollo Investment Fund VI, L.P. (8/05)* | 0 |
| Carlyle Partners IV, L.P. (12/04) | 41,094,914 |
| Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03) | 137,349,340 |
| Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06) | 8,624,275 |
| Castle Harlan Partners IV, L.P. (5/03) | 20,009,295 |
| Code Hennessy & Simmons V, L.P. (2/05) | 2,901,591 |
| DLJ Merchant Banking Partners, L.P. (9/92) | 3,935,357 |
| DLJ Merchant Banking Partners II, L.P. (3/97) | 25,491,583 |
| DLJ Merchant Banking Partners III, L.P. (9/00) | 92,052,662 |
| Elevation Partners, L.P. (2/05)* | 3,812,324 |
| Energy Capital Partners I, L.P. (2/06)* | 0 |
| Evercore Capital Partners II, L.P. (4/03) | 46,108,115 |
| Glencoe Capital Partners III, L.P. (1/04) | 7,802,116 |
| Glencoe Capital Institutional Partners III, L.P. (6/04) | 7,325,867 |
| GTCR Fund VII/VIIA, L.P. (3/00) | 49,086,643 |
| GTCR Fund VIII, L.P. (7/03) | 34,113,334 |
| Hispania Private Equity, L.P. (5/04) | 962,891 |
| ICV Partners II, L.P. (12/05) | 1,405,943 |
| KKR 1996 Fund, L.P. (5/97) | 23,000,347 |
| Lehman Brothers Merchant Banking III, L.P. (2/05) | 35,924,016 |
| Mesirow Capital Partners VII, L.P. (6/97) | 3,110,414 |
| Reliant Equity Partners, L.P. (6/04) | 4,696,552 |
| TCW/Latin America Private Equity Partners, L.P. (5/97) | 1,179,856 |
| Thayer Equity Investors V, L.P. (5/03) | 38,257,286 |
| TPG Partners IV, L.P. (12/03) | 29,968,899 |
| Trivest Fund II, Ltd. (6/96) | 17,198,353 |
| VS&A Communications Partners II, L.P. (9/95) | 2,516,049 |
| VSS Communication Partners IV, L.P. (2/05) | 9,813,033 |
| Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05) | 12,023,441 |
| Windpoint Partners VI, L.P. (5/05) | 1,024,168 |
| WPG Corporate Development Associates V, L.P. (11/97) | 9,091,723 |

* Partnership was not funded at June 30, 2006; date reflects the TRS Board of Trustees approval.

Continued

Distressed Debt

| | |
|---|------------|
| Carlyle Strategic Partners, L.P. (2/04) | 24,672,878 |
| MatlinPatterson Global Opportunities Fund II, L.P. (1/04) | 31,531,435 |
| OCM Opportunities Fund V, L.P. (6/04) | 32,812,701 |

Special Situations

| | |
|----------------------------|------------|
| Banc Fund VI, L.P. (12/02) | 55,177,654 |
| Banc Fund VII, L.P. (5/05) | 16,513,574 |

Subordinated Debt

| | |
|--|------------|
| Merit Mezzanine Fund IV, L.P. (2/04) | 13,093,368 |
| Prism Mezzanine Fund, L.P. (5/04) | 3,925,737 |
| SW Pelham Fund II, L.P. (9/03) | 15,515,213 |
| Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05) | 23,986,171 |
| William Blair Mezzanine Capital Fund II, L.P. (5/97) | 15,316,758 |
| William Blair Mezzanine Capital Fund III, L.P. (1/00) | 22,215,990 |

Venture Capital

| | |
|--|-------------|
| Apex Investment Fund III, L.P. (6/96) | 2,591,279 |
| Apex Investment Fund V, L.P. (8/03) | 22,503,190 |
| Carlyle Venture Partners II, L.P. (10/02) | 104,659,286 |
| Edgewater Growth Capital Partners, L.P. (11/03) | 17,321,375 |
| Edgewater Growth Capital Partners II, L.P. (2/05) | 3,668,737 |
| Evergreen Partners IV, L.P. (12/02) | 11,958,069 |
| Frontenac VI, L.P. (6/93) | 1,047,073 |
| Granite Ventures II, L.P. (5/05) | 1,542,573 |
| HealthPoint Partners, L.P. (6/04) | 28,808,223 |
| Hopewell Ventures, L.P. (6/04) | 1,386,016 |
| Illinois Emerging Technologies Fund, L.P. (6/04) | 741,854 |
| Penman Private Equity and Mezzanine Fund, L.P. (10/94) | 3,492,171 |
| Periscope Fund I, L.P. (6/97) | 125,391 |
| 21st Century Communication T-E Partners, L.P. (2/95) | 1,617,032 |
| SCP Private Equity Partners, L.P. (5/97) | 9,424,891 |
| SCP Private Equity Partners II, L.P. (6/00) | 58,123,535 |
| Shasta Ventures, L.P. (12/04) | 5,136,250 |
| VantagePoint Venture Partners IV, L.P. (6/00) | 48,952,565 |
| Warburg Pincus International Partners, L.P. (9/00) | 67,161,572 |
| Warburg Pincus International Partners IX, L.P. (8/05) | 28,983,845 |
| WPG Enterprise Fund, L.P. (11/89) | 417,557 |
| WPG Enterprise Fund II, L.P. (8/94) | 19,342,228 |
| WPG Enterprise Fund III, L.P. (3/97) | 30,165,604 |

Discussion of Private Equity

In April 2003, the TRS Board of Trustees adopted a target for private equity of 6.0 percent. Since this decision, the portfolio has been steadily and prudently increasing exposure to private equity and is now 4.2 percent of total fund value. The target of 6.0 percent is expected to be accomplished by 2009, but is subject to many factors, such as public market performance and availability of quality private equity partnerships in the market. The following charts provide a further breakdown of the targeted style allocation adopted by the TRS Board as compared to the actual breakdown at June 30, 2006.

Private Equity Target and Actual Allocation as of June 30, 2006

| Subclasses | Target | Actual |
|--|--------|-------------|
| Buyout | 60-70% | 52% |
| Venture Capital | 10-20 | 31 |
| Special Situations/Distressed Debt/Subordinated Debt | 5-15 | 17 |
| Total | | 100% |

Source: TRS

During FY06, TRS made new commitments to eight private equity funds totaling \$630 million. Many of the investments over the past year have been within the buyout sector of the private equity universe because many established buyout firms have been coming back to market for additional capital. Venture capital continues to provide opportunities, but investments must be entered into prudently. Going forward, the TRS Tactical Plan calls for investing approximately \$600 to \$800 million per year for the next four years.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, hotels, and farm land. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay program benefits to plan participants and survivors.



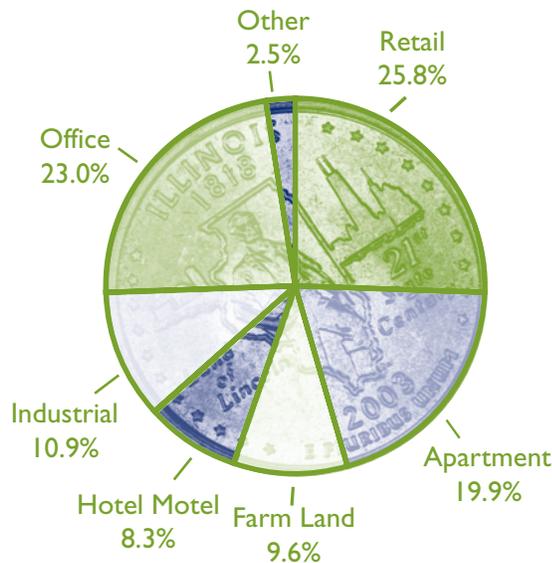
BRYSON SQUARE
ATLANTA, GEORGIA

As of June 30, 2006, TRS had over \$3.9 billion in real estate assets, or 10.8 percent of the total fund portfolio. For the year, TRS's real estate investments returned 18.8 percent on a net of fee basis and outperformed the Real Estate Property Index for the fourth consecutive year. Real estate performance and benchmark comparison are noted in the following table:

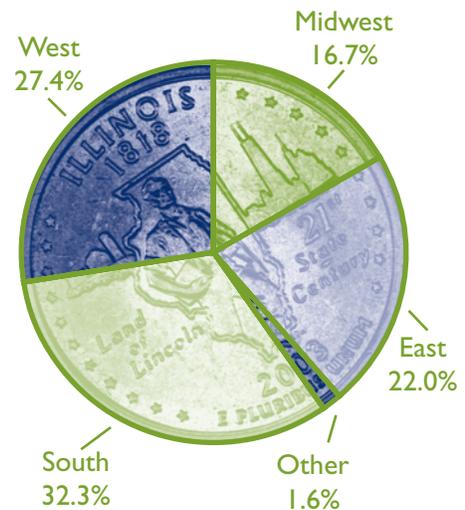
| | FY06 | 3-Year | 5-Year | 10-Year |
|----------------------------|--------------|---------------|---------------|----------------|
| TRS, net of fees | 18.8% | 17.3% | 12.4% | 12.1% |
| Real Estate Property Index | 18.7 | 15.8 | 12.0 | 11.0 |

To enhance returns and reduce risk, TRS acquires high quality properties diversified by type and in locations throughout the United States. TRS's real estate holdings by type and geography are exhibited in the following charts.

Real Estate Holdings by Type as of June 30, 2006



Geographic Diversification of Real Estate Holdings as of June 30, 2006



Note: The geographic diversification chart does not include farm land.

Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed end accounts represent partnership interests in real estate funds. As of June 30, 2006, TRS had the following managers and assets under management.

Real Estate Managers and Assets Under Management (inception date of account)

Separate Accounts

| | |
|---|-----------------|
| Capri/Capital Advisors, L.L.C. (12/91) | \$1,137,268,478 |
| Cozad/Westchester Asset Management, Inc. (5/91) | 377,965,284 |
| Commonwealth Realty Advisors, Inc. I (9/91) | 713,863,660 |
| Commonwealth Realty Advisors, Inc. II (11/92) | 149,578,213 |
| Commonwealth Realty Advisors, Inc. III (5/03) | 10,000 |
| Koll Bren Schreiber Realty Advisors I (6/93) | 421,659,667 |
| Koll Bren Schreiber Realty Advisors II (5/96) | 3,545,431 |
| LPC Realty Advisors I, Ltd. (7/92) | 297,383,056 |
| Stone-Levy, L.L.C. (4/95) | 276,073,374 |

Closed End Accounts

| | |
|--|-------------|
| Capri/Capital Apartment Fund III (3/90) | 105,663,358 |
| Capri Select Income Fund II, L.L.C. | 4,992,438 |
| Carlyle Europe Real Estate Partners, L.P. (6/03) | 50,484,037 |
| Carlyle Realty Partners IV (6/05) | 34,069,919 |
| DLJ Real Estate Capital Partners, Inc. (3/96) | 7,833,678 |
| JBC Opportunity Fund II, L.P. | 44,023,174 |
| JER Real Estate Partners III, L.P. (1/05) | 44,020,080 |
| RREEF Capital II, L.L.C. (11/96)* | 312,629 |
| Thayer Hotel IV | 4,974,265 |
| Walton Street Capital, L.L.C. (7/03) | 137,059,987 |

Open End Accounts

| | |
|--|-------------|
| Hines-Sumisei U.S. Core Office (12/05) | 25,846,510 |
| Lion Industrial Trust (4/05) | 109,681,719 |

* In liquidation mode.

Discussion of Real Estate

In FY06, the TRS real estate portfolio grew from 10.5 percent of the total investment portfolio to 10.8 percent. Over the year, a new commitment was made to the Hines-Sumisei U.S. Core Office fund, increasing the portfolio's exposure in the core office sector.

Competition among institutional investors for quality real estate assets has made it challenging to make new investments, but TRS was able to afford some growth toward the interim target of 12 percent. TRS will continue toward this target by prudently seeking new investments that meet TRS return expectations. Also in FY06, TRS continued in earnest to upgrade the quality of the real estate portfolio by recognizing profits and selling older assets. This activity will continue in FY07.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2006 and 2005. TRS manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2006, TRS recaptured over \$1.4 million in cash that was reinvested back into the fund. In addition, TRS uses a portion of commission recapture refunds to pay for investment administrative expenses. During FY06, TRS used \$863,819 of commission recaptured to offset expenditures.

Top 50 Brokers Used by TRS Managers

| Broker | FY06 Commission | FY05 Commission |
|--|----------------------------|----------------------------|
| Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide) | \$1,490,020 | \$1,243,057 |
| Goldman Sachs & Co. (Worldwide) | 1,444,989 | 841,114 |
| Lynch Jones & Ryan (Worldwide) | 1,122,078 | 914,439 |
| UBS Investment Bank and all Subsidiaries (Worldwide) | 1,001,870 | 912,476 |
| J.P. Morgan Securities, Inc. (Worldwide) | 729,448 | 545,788 |
| Citigroup and all Subsidiaries (Worldwide) | 701,306 | 712,569 |
| Morgan Stanley & Co., Inc. (Worldwide) | 680,192 | 615,194 |
| Credit Suisse (Worldwide) | 679,830 | 475,421 |
| Pershing Securities Ltd. (Worldwide) | 637,463 | 166,761 |
| Lehman Brothers, Inc. (Worldwide) | 551,360 | 654,493 |
| State Street Brokerage Services and all Subsidiaries (Worldwide) | 430,258 | 951,834 |
| Deutsche Bank and all Subsidiaries (Worldwide) | 396,709 | 463,998 |
| Liquidnet, Inc. | 395,219 | 225,547 |
| Bear Stearns (Worldwide) | 337,475 | 297,196 |
| B-Trade Services L.L.C. | 325,621 | 224,752 |
| Jefferies & Company (Worldwide) | 282,813 | 157,792 |
| Investment Technology Group, Inc. (Worldwide) | 270,857 | 400,765 |
| Dresdner Kleinwort Wasserstein | 198,289 | 229,276 |
| Ivy Securities, Inc. | 170,178 | 7,825 |
| Thomas Weisel Partners L.L.C. | 166,091 | 106,903 |
| Banc of America Securities | 158,775 | 109,650 |
| Cabrera Capital Markets, Inc. | 156,206 | 182,567 |
| Melvin Securities, Inc. | 136,538 | 39,129 |
| Abel/Noser Corporation | 134,078 | 180,615 |
| BMO Nesbitt Burns | 128,957 | 9,051 |
| Weeden & Co. | 127,551 | 173,536 |
| ABN AMRO and all Subsidiaries (Worldwide) | 123,653 | 240,568 |
| Societe Generale (Worldwide) | 115,701 | 55,835 |
| Cantor Fitzgerald & Co. | 111,002 | 65,675 |
| Macquarie Securities (Worldwide) | 105,183 | 55,185 |
| CIBC World Markets Corp. | 100,861 | 131,059 |
| Credit Lyonnais Securities (Worldwide) | 99,918 | 87,576 |
| Capital Institutional Services, Inc. | 98,501 | 108,893 |
| Bernstein, Sanford C. & Co. | 98,169 | 82,406 |
| Guzman & Company | 97,230 | 36,059 |
| M. Ramsey King Securities | 95,602 | 110,478 |
| Piper Jaffray & Co. | 94,608 | 23,205 |
| RBC Capital Markets, Inc. | 91,463 | 54,391 |
| Frank Russell, Inc. | 88,938 | 30,589 |
| Raymond James | 84,092 | 64,847 |
| Prudential Equity Group | 81,043 | 98,852 |
| Pulse Trading, L.L.C. | 80,397 | 84,272 |
| Instinet, L.L.C. | 80,206 | 32,809 |
| Robert W. Baird & Company, Inc. | 78,380 | 110,327 |
| Jones & Associates | 77,354 | 76,898 |
| Gardner Rich & Co. | 76,771 | 244,234 |
| Daiwa Securities (Worldwide) | 71,988 | 32,628 |
| Needham & Company | 71,877 | 24,359 |
| Banco Pactual | 71,690 | 5,332 |
| Pacific Crest Securities | 71,262 | 21,559 |
| All Others (FY06, 325 Brokers) | 3,653,787 | 3,641,054 |
| Totals | <u>\$18,673,847</u> | <u>\$16,360,838</u> |

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2006, fee payments to external investment managers totaled \$120.384 million, an increase of 15.5 percent from the year ended June 30, 2005. The increase is attributable to TRS's increased allocation to the private markets asset classes, as well as the decreasing allocation to TRS passive index funds.

A summary is provided in the Schedule of Investment Manager Fees table.

Schedule of Investment Manager Fees

| Investment Manager/Account | FY06 | FY05 |
|---|-------------|-------------|
| 21st Century Communication T-E Partners, L.P. | \$4,527 | \$41,434 |
| Advisory Research, Inc. | 145,094 | 304,811 |
| Apex Investment Fund III, L.P. | 324,969 | 433,325 |
| Apex Investment Fund V, L.P. | 478,985 | 561,640 |
| Apollo Investment Fund V, L.P. | 0 | 1,069,197 |
| Apollo Investment Fund VI, L.P. | 711,929 | 0 |
| Ariel Capital Management, Inc. | 945,982 | 1,385,454 |
| Artisan Partners Limited Partnership | 26,950 | 207,604 |
| Banc Fund VI, L.P. | 1,001,875 | 892,733 |
| Banc Fund VII, L.P. | 235,207 | 8,988 |
| Barclays Global Investors | 1,677,979 | 73,841 |
| Batterymarch Financial Management, Inc. | 1,484,440 | 782,316 |
| Bear Stearns Asset Management, Inc. | 574,511 | 1,590,779 |
| BlackRock, Inc. | 1,665,194 | 2,338,609 |
| Boston Partners Asset Management, L.P. | 1,384,779 | 1,264,108 |
| Brandes Investment Partners, L.P. | 3,872,812 | 3,463,353 |
| Byram Capital Management, L.L.C. | 1,109,261 | 665,683 |
| Capital Guardian Trust Company | 0 | 1,429,465 |
| Capri/Capital Advisors, L.L.C. | 4,299,881 | 3,824,618 |
| Capri Capital Apartment Fund III | 1,277,372 | 1,177,859 |
| Capri Select Income II, L.L.C. | 374,818 | 0 |
| Castle Harlan Partners IV, L.P. | 330,316 | 557,406 |
| Code Hennessy & Simmons V, L.P. | 82,945 | 0 |
| Commonwealth Realty Advisors, Inc. | 3,983,186 | 4,842,927 |
| Cozad/Westchester Asset Management, Inc. | 1,842,085 | 1,916,448 |
| Delaware Investment Advisers | 3,284,008 | 2,946,669 |
| DLJ Merchant Banking Partners, L.P. | 0 | 0 |
| DLJ Merchant Banking Partners II, L.P. | 195,597 | 191,138 |
| DLJ Merchant Banking Partners III, L.P. | 33,120 | 1,425,427 |
| DLJ Real Estate Capital Partners, Inc. | 128,151 | 205,541 |
| Dodge & Cox | 4,790,009 | 4,243,556 |
| Dolan McEniry Capital Management, L.L.C. | 6,234 | 0 |
| EARNEST Partners, L.L.C. | 1,141,435 | 559,372 |
| Edgewater Growth Capital Partners, L.P. | 0 | 0 |
| Elevation Partners, L.P. | 149,359 | 203,707 |
| Emerald Advisers, Inc. | 1,418,263 | 690,250 |
| Energy Capital Partners I, L.P. | 360,189 | 0 |
| Evercore Capital Partners II, L.P. | 815,485 | 1,000,000 |
| Evergreen Partners IV, L.P. | 619,180 | 619,180 |
| Frontenac VI, L.P. | 0 | 0 |
| Geewax, Terker & Company | 0 | 181,902 |
| Glencoe Capital Partners III, L.P. | 307,606 | 374,287 |
| Goldman Sachs Asset Management, L.P. | 104,604 | 0 |
| Granite Ventures II, L.P. | 194,740 | 0 |
| Grantham, Mayo, Van Otterloo & Co., L.L.C. | 6,903,426 | 4,766,309 |
| Great Lakes Advisors, Inc. | 374,621 | 262,726 |
| GTCR Fund VII/VIIA, L.P. | 0 | 156,728 |
| GTCR Fund VIII, L.P. | 0 | 154,679 |
| Harris Associates, L.P. | 2,419,282 | 2,208,246 |
| HealthPoint Partners, L.P. | 344,935 | 890,180 |

Continued

| Investment Manager/Account | FY06 | FY05 |
|---|-------------|-------------|
| Heitman Capital Management | 0 | 0 |
| Hines-Sumisei U.S. Core Office Fund, L.P. | 60,008 | 0 |
| Hispania Private Equity, L.P. | 316,119 | 305,099 |
| Holland Capital Management, L.P. | 958,086 | 1,055,381 |
| Hopewell Ventures, L.P. | 383,273 | 280,946 |
| ICV Partners II, L.P. | 280,685 | 0 |
| Illinois Emerging Technologies Fund, L.P. | 44,563 | 53,130 |
| ING Investment Management Company | 79,694 | 0 |
| INVESCO Global Asset Management (N.A.), Inc. | 2,564,225 | 2,230,882 |
| J & W Seligman & Co., Inc. | 525,451 | 1,117,268 |
| Jarislowsky, Fraser Limited | 745,668 | 0 |
| JBC Opportunity Fund II, L.P. | 1,250,000 | 1,250,000 |
| JER Real Estate Partners III, L.P. | 956,249 | 1,626,935 |
| KKR 1996 Fund, L.P. | 18,936 | 27,714 |
| Koll Bren Schreiber Realty Advisors | 4,384,896 | 3,754,886 |
| Lehman Brothers Asset Management, L.L.C. | 98,091 | 0 |
| Lehman Brothers Merchant Banking Partners III, L.P. | 750,000 | 536,301 |
| Lion Industrial Trust | 903,095 | 83,703 |
| LM Capital Group, L.L.C. | 98,619 | 282,705 |
| LPC Realty Advisors I, Ltd. | 2,426,821 | 1,534,943 |
| LSV Asset Management | 3,489,731 | 2,999,110 |
| MatlinPatterson Global Opportunities Fund II, L.P. | 986,173 | 1,709,173 |
| Mazama Capital Management, Inc. | 2,691,432 | 1,992,959 |
| McKinley Capital Management, Inc. | 1,927,935 | 0 |
| Merit Mezzanine Fund IV, L.P. | 885,887 | 436,077 |
| Mesirow Capital Partners VII, L.P. | 31,250 | 98,590 |
| Mondrian Investment Partners Limited | 2,165,400 | 1,652,689 |
| NCM Capital Advisers, Inc. | 20,721 | 0 |
| Northern Trust Global Investments | 34,682 | 97,916 |
| NorthPointe Capital | 0 | 213,216 |
| OCM Opportunities Fund V, L.P. | 312,500 | 312,499 |
| Pacific Investment Management Company, L.L.C. | 2,927,368 | 3,555,816 |
| Payden & Rygel | 929,479 | 901,134 |
| Penman Private Equity & Mezzanine Fund, L.P. | 0 | 0 |
| Periscope I Fund, L.P. | 3,553 | 25,904 |
| Prism Mezzanine Fund, L.P. | 626,973 | 1,080,126 |
| Pyramis Global Advisors | 2,580,473 | 2,403,258 |
| Reliant Equity Partners, L.P. | 186,213 | 219,390 |
| RhumbLine Advisers, L.P. | 5,766 | 0 |
| RREEF Capital II, L.L.C. | 0 | 113,411 |
| Sands Capital Management, Inc. | 1,013,061 | 1,008,171 |
| SCP Private Equity Partners, L.P. | 148,415 | 192,796 |
| SCP Private Equity Partners II, L.P. | 2,000,000 | 2,000,000 |
| Shasta Ventures, L.P. | 0 | 0 |
| State Street Global Advisors | 530,047 | 555,995 |
| Stone-Levy, L.L.C. | 1,725,390 | 1,929,380 |
| SW Pelham Fund II, L.P. | 265,416 | 333,021 |
| T. Rowe Price Associates, Inc. | 2,729,431 | 122,535 |
| Taplin, Canida & Habacht | 471,057 | 284,040 |
| TCW/Latin American Private Equity Partners, L.P. | 0 | 70,232 |
| Thayer Equity Investors V, L.P. | 354,473 | 670,374 |
| Thayer Hotel IV | 0 | 39,119 |
| The Carlyle Europe Real Estate Partners, L.P. | 199,526 | 524,501 |
| The Carlyle Group | 3,750,000 | 3,750,000 |
| The Carlyle Group Partners IV, L.P. | 1,276,903 | 333,332 |
| The Carlyle Group/Realty Partners IV, L.P. | 922,625 | 525,000 |
| The Carlyle Group/Riverstone Global Energy Fund II, L.P. | 862,502 | 1,346,301 |
| The Carlyle Group/Riverstone Global Energy Fund III, L.P. | 909,864 | 0 |
| The Carlyle Group/Strategic Partners, L.P. | 749,830 | 400,026 |
| The Northern Trust Company (Custody) | 533,891 | 508,080 |

Continued

| Investment Manager/Account | FY06 | FY05 |
|---|-----------------------------|-----------------------------|
| Thompson, Siegel & Walmsley, Inc. | 1,569,773 | 835,610 |
| TPG Partners IV, L.P. | 0 | 538,310 |
| Trivest Fund II, Ltd. | 12,994 | 42,389 |
| Turner Investment Partners, Inc. | 1,988,040 | 1,239,147 |
| Tygh Capital Management, Inc. | 157,915 | 0 |
| UBS Global Asset Management (Americas), Inc. | 1,432,903 | 1,082,183 |
| VantagePoint Venture Partners IV, L.P. | 0 | 0 |
| Voyageur Asset Management, Inc. | 1,299,376 | 659,200 |
| VS&A Communications Partners II, L.P. | 0 | 0 |
| VSS Communications Partners IV, L.P. | 738,232 | 387,500 |
| Walton Street Capital, L.L.C. | 993,097 | 377,866 |
| Warburg Pincus International Partners, L.P. | 0 | 0 |
| Warburg Pincus Private Equity IX, L.P. | 746,534 | 0 |
| Weiss, Peck & Greer Investments/Robeco USA | 633,533 | 656,706 |
| Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. | 250,864 | 0 |
| Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. | 825,859 | 0 |
| Western Asset Management Company | 2,041,662 | 436,313 |
| William Blair Mezzanine Capital Fund II, L.P. | 113,246 | 147,928 |
| William Blair Mezzanine Capital Fund III, L.P. | 383,744 | 563,512 |
| Wind Point Partners VI, L.P. | 135,704 | 0 |
| WPG Corporate Development Associates V, L.P. | 129,872 | 237,836 |
| WPG Enterprise Fund, L.P. | 0 | 1,837 |
| WPG Enterprise Fund II, L.P. | 150,955 | 158,104 |
| WPG Enterprise Fund III, L.P. | 262,332 | 400,360 |
| Total fees paid by TRS | <u>\$120,384,422</u> | <u>\$104,221,360</u> |

Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.

Securities Lending

TRS participates in securities lending activity with its custodian, The Northern Trust Company, acting as the securities lending agent. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

Securities Lending Summary

| Income Source | Amount |
|---|-----------------|
| Northern Trust FY06 Net Securites Lending Income | \$12,264,071 |
| Total Northern Trust (6/30/06) Collateral Market Value | \$4,873,673,805 |
| Total Market Value of Securities on Loan Northern Trust (6/30/06) | \$4,788,220,451 |
| Total Collateralized Percentage | 102% |

Source: The Northern Trust Company

During the year, TRS also participated in securities lending within its passive or indexed fund investments managed by State Street Global Advisors and Northern Trust Global Investments. The income earned from securities lending activities within these indexed funds is reinvested back into the respective fund.