

Investments



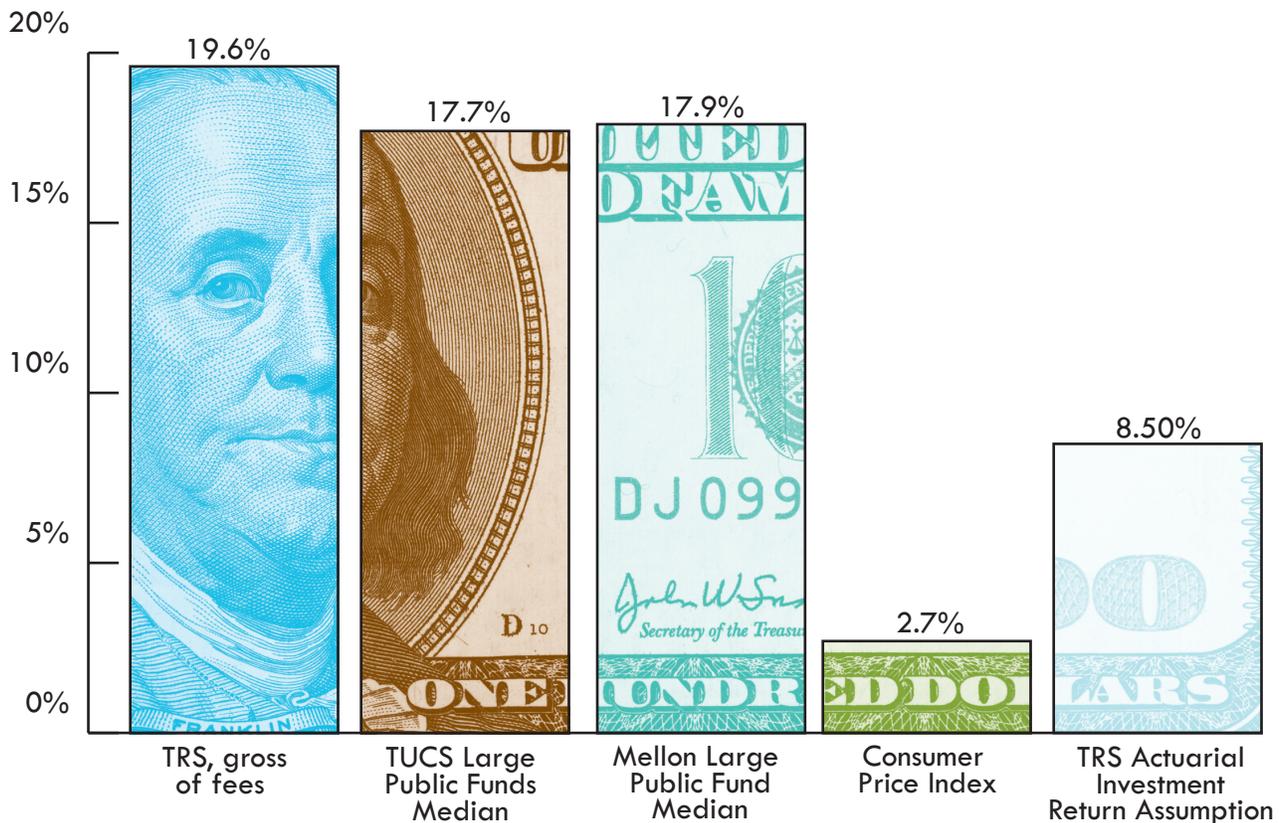
Sound, diversified investments help to provide retirement security for Illinois educators.

Introduction

The TRS investment portfolio had another strong year, returning 19.6 percent, gross of fees. This number follows a successful FY06 performance of 12.2 percent, gross of fees, as all asset classes again produced positive returns. The overall global economies remained strong throughout the year, providing yet another year of significant investment returns. International stock markets, again led by the emerging market economies, rallied to a 30 percent return for the year. Within the U.S., large cap stocks led the overall market to a 20 percent increase. TRS's private markets investments continued to post substantial gains for FY07, with the TRS private equity portfolio returning 29.3 percent, net of fees, and the TRS real estate portfolio generating a 25.3 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 decile of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2007



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

Total TRS investments, including accrued income, increased by approximately \$4.7 billion during the year ended June 30, 2007. As previously mentioned, all TRS asset classes again produced positive returns during the fiscal year. This represents the fourth consecutive year for this accomplishment.

The TRS portfolio remains fully diversified across different asset classes. A number of investment managers are utilized within each asset class to ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile global 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, 2006 through June 30, 2007. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2007. Additionally, The Northern Trust Company calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2007

Total Fund Market Value	\$42.2 billion
One-Year Return (net of fees)	19.2%
Five-Year Return (net of fees)	12.5%
Ten-Year Return (net of fees)	9.1%
Percent Externally Managed	100.0%
Number of External Managers	104
Custodian	The Northern Trust Company
General Consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 33rd out of the top 1,000 U.S. pension funds/plan sponsors in the January 22, 2007, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2006.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2007, TRS’s total investments, including accrued investment income, at market value totaled \$42.2 billion, an increase of \$4.7 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 Statements of Plan Assets located on page 24.

TRS had a total fund annualized return of 19.6 percent, gross of fees, and 19.2 percent, net of fees, for the one-year period ending June 30, 2007. 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 FY07 surpassed the policy index return of 17.9 percent for the year ended June 30, 2007. The policy index represents a weighted average of each asset class benchmark, based on the total fund’s target asset allocation. 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 6/30/07		
	2007	2006	2005	2004	2003	3 Years	5 Years	10 Years
TRS Total Fund	19.2%	11.8%	10.8%	16.5%	4.9%	13.9%	12.5%	9.1%
TRS Weighted Policy Index	17.9	11.3	10.7	16.0	3.9	13.3	11.9	8.2
CPI (Inflation)	2.7	4.3	2.5	3.3	2.1	3.2	3.0	2.7
TRS Equity - U.S.	19.4	9.6	8.1	21.6	0.5	12.3	11.6	7.4
Russell 3000 Index	20.1	9.6	8.1	20.5	0.8	12.4	11.5	7.3
TRS Fixed Income	5.9	0.1	6.6	0.7	10.7	4.2	4.7	5.8
TRS Weighted Fixed Income Index	6.1	(0.7)	6.8	0.3	11.1	4.0	4.6	5.6
Lehman Brothers Aggregate Index	6.1	(0.8)	6.8	0.3	10.4	4.0	4.5	6.0
TRS Equity - International	29.6	27.3	17.3	32.8	(5.2)	24.6	19.5	9.3
Non-U.S. Equity Index	30.2	28.4	17.0	32.5	(4.2)	25.0	19.9	8.7
TRS Real Estate	25.3	18.8	19.9	13.2	8.8	21.3	17.1	13.4
Real Estate Property Index	17.2	18.7	18.0	10.8	7.7	18.0	14.4	11.8
TRS Private Equity	29.3	23.8	20.0	10.3	(11.4)	24.3	13.4	19.8
Russell 3000 Index + 3.0%*	23.7	12.9	11.3	24.1	3.8	15.8	14.9	8.4
TRS Short-Term Investments	5.4	4.2	2.2	1.1	1.5	3.9	2.9	4.0
ML 3 Month T-bill Index	5.2	4.0	2.2	1.0	1.5	3.8	2.8	3.8

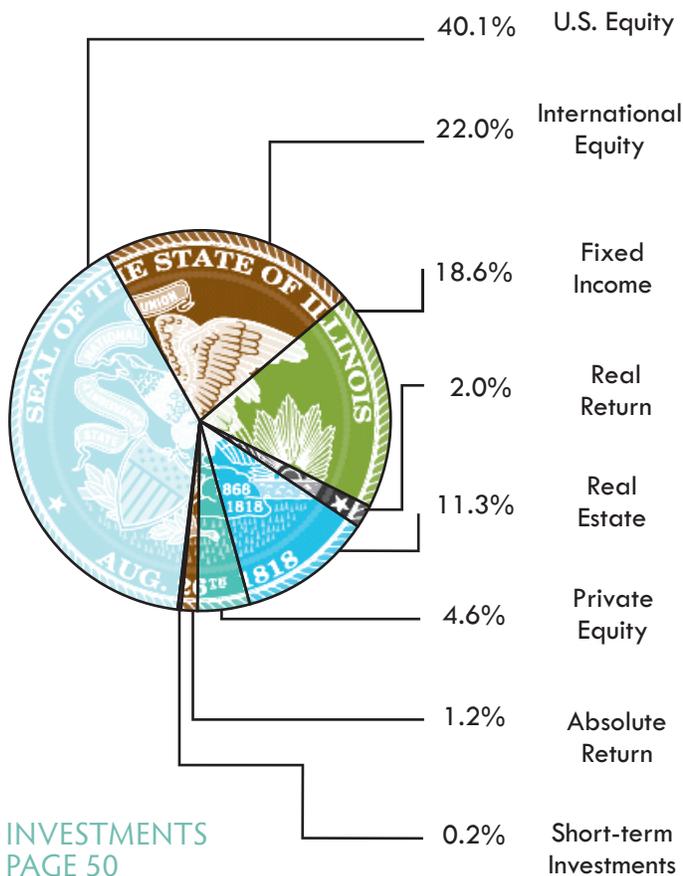
* Index compounded monthly.

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

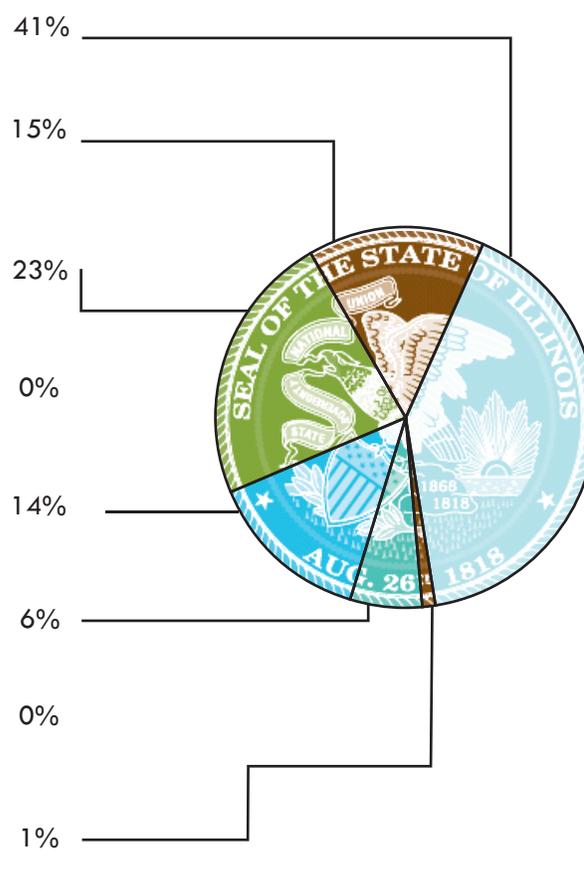
Asset Allocation vs. Targets

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.

FY07 Asset Allocation



Long-term Target Allocation



In FY07, TRS completed its first comprehensive asset allocation study since 2002. While TRS's performance has been very strong, such studies are a critical means of ensuring that an investment portfolio is properly positioned to changing global economic environments. The results of this study suggested that additional asset classes could meaningfully reduce and diversify the portfolio's risk while, at the same time, enhancing the long-term expected return. As such, the TRS Board of Trustees approved initial investments within the real return and absolute return asset classes. Complete funding of the new classes is scheduled for FY08 and will be obtained from reduced allocations to the U.S. equity and fixed income portfolios.

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, compared to the total assets assigned to each particular asset class at June 30, 2007.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/07	FY07			FY06	
	Total Fund \$ Millions	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$16,778	40.1%	43%	41%	41.8%	41%
International Equities	9,178	22.0	15	15	19.4	15
Fixed Income	7,783	18.6	25	23	23.3	23
Real Estate	4,732	11.3	12	14	10.8	14
Private Equity	1,935	4.6	4	6	4.2	6
Real Return*	850	2.0	-	-	-	-
Absolute Return*	490	1.2	-	-	-	-
Short-Term Investments	97	0.2	1	1	0.5	1
Pending Settlements/Expenses**	388	NA	NA	NA	NA	NA
Total Fund	\$42,231	100.0%	100%	100%	100.0%	100%

* Initial funding of the asset class occurred at the end of FY07.

** 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

	2007		2006	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. Treasuries	\$513,731,037	1.2%	\$1,433,704,715	3.8%
U.S. Federal Agencies	1,217,042,065	2.9	1,612,335,642	4.3
U.S. Government Index Linked Bonds	449,648,751	1.0	263,914,841	0.7
U.S. Government Backed Mortgages	3,192,471,823	7.6	2,818,412,775	7.5
U.S. Municipals (Taxable)	301,251	-	11,619,751	-
Credits				
Bank Loans	31,879,635	0.1	3,990,000	-
Financial	1,167,521,985	2.8	955,446,107	2.5
Industrial	576,206,932	1.3	540,804,865	1.4
Utilities	167,080,757	0.4	133,348,472	0.4
Structured Notes	2,998,179	-	-	-
Asset Backed Securities	536,240,991	1.3	721,905,881	1.9
Commercial Mortgage Backed Securities	493,727,355	1.2	527,255,346	1.4
Collateralized Mortgage Obligations	848,151,787	2.0	781,486,169	2.1
Commingled/Closed End Funds	39,010,178	0.1	77,089,595	0.2
Corporate Convertible Bonds	4,492,094	-	2,945,437	-
Foreign Debt Obligations	900,493,848	2.1	656,883,773	1.7
Total Bonds, Corporate Notes, and Government Obligations	10,140,998,668	24.0	10,541,143,369	27.9
Equities				
Common Stock - U.S.	13,908,176,627	32.9	12,575,262,796	33.5
Preferred Stock - U.S.	33,817,240	0.1	37,767,710	0.1
Common Stock - International	9,360,153,385	22.2	7,244,296,966	19.3
Preferred Stock - International	185,832,865	0.4	174,064,874	0.5
Total Equities	23,487,980,117	55.6	20,031,392,346	53.4
Short-term Investments/Cash Equivalents	1,474,343,766	3.5	1,526,228,488	4.1
Derivatives—Options, Futures, and Swaps	847,479	-	(13,134,647)	-
Foreign Currency	49,081,933	0.1	34,040,496	0.1
Absolute Return	490,000,000	1.2	-	-
Private Equity	1,894,311,762	4.5	1,513,997,646	4.0
Real Estate Equity	4,693,519,131	11.1	3,946,280,351	10.5
TRS Total Portfolio	<u>\$42,231,082,856</u>	<u>100.0%</u>	<u>\$37,579,948,049</u>	<u>100.0%</u>

Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2007	2006
TRS Total Portfolio	\$42,231,082,856	\$37,579,948,049
Less accrued income	(278,001,913)	(243,067,231)
Investments at fair value	<u>\$41,953,080,943</u>	<u>\$37,336,880,818</u>

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.

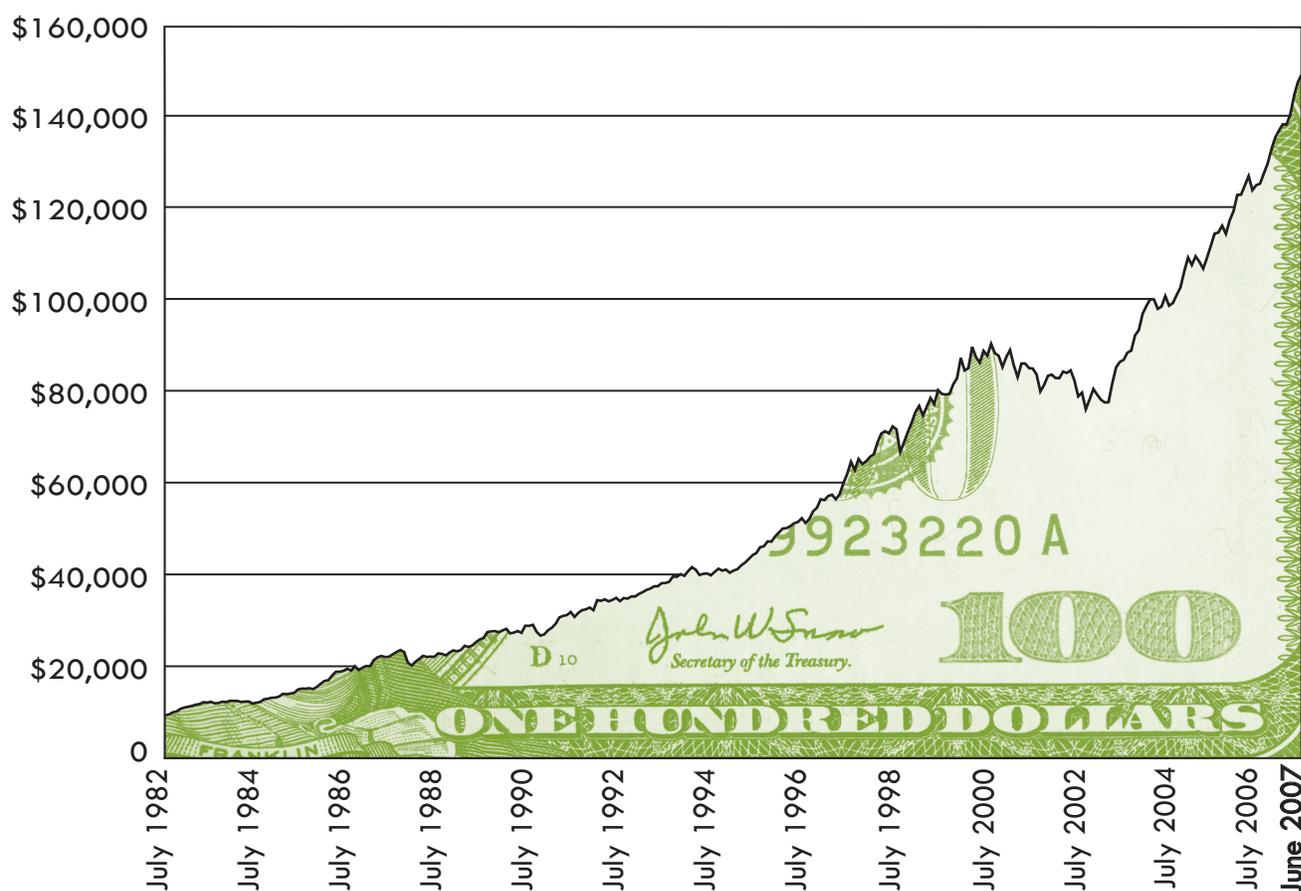
Securities Holdings for Years Ending June 30

Asset Type	2007	2006	2005	2004	2003
Bonds, Corporate Notes, and Government Obligations	24.0%	27.9%	29.4%	28.2%	30.3%
Equities - International	22.6	19.8	17.7	16.7	13.9
Equities - U.S.	33.0	33.6	35.8	40.9	38.6
Private Equity	4.5	4.0	3.0	2.6	2.8
Real Estate Equity	11.1	10.5	10.0	8.3	10.0
Absolute Return	1.2	-	-	-	-
Short-Term Investments/Currency	3.6	4.2	4.1	3.3	4.4
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

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 25 years.

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, 2007.

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 19.4 percent on a net of fee basis, slightly behind the Russell 3000 Index return of 20.1 percent. One-, three-, five- and 10-year comparisons to this benchmark are noted below:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	19.4%	12.3%	11.6%	7.4%
Russell 3000 Index	20.1	12.4	11.5	7.3

At June 30, 2007, 40.1 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 FY07.

The top 10 domestic equity holdings, excluding index funds, at June 30, 2007, are listed below and represent 11.1 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, 2007

Firm	Market Value
General Electric Co.	\$268,315,927
Exxon Mobil Corp.	216,142,068
Citigroup, Inc.	158,576,576
Microsoft Corp.	153,115,187
Hewlett-Packard Co.	138,933,606
Chevron Corp.	132,146,446
Google, Inc.	126,662,147
Pfizer, Inc.	126,105,794
Cisco Systems, Inc.	120,102,011
ConocoPhillips	101,185,951
Total	<u>\$1,541,285,713</u>

Source: The Northern Trust Company

As of June 30, 2007, TRS employed the following domestic equity managers including their respective assets under management.

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

Index	
RhumbLine Advisors, L.P. (5/06)	\$1,080,338,081
State Street Global Advisors (1/06)	1,268,125,412
Enhanced Index	
Barclays Global Investors (6/05)	1,182,933,657
Pacific Investment Management Company, L.L.C. (8/91)	1,042,551,858
T. Rowe Price Associates, Inc. (6/05)	1,199,152,701
Western Asset Management Company, L.L.C. (4/05)	1,071,580,047
Large Cap Value	
Dodge & Cox (4/00)	1,565,174,569
EARNEST Partners, L.L.C. (2/02)	221,436,514
Robeco Boston Partners Asset Management, L.P. (1/03)	938,274,223
Large Cap Growth	
State Street Global Advisors (12/05)	522,620,883
T. Rowe Price Associates, Inc. (11/06)	840,456,168
Turner Investment Partners, Inc. (6/04)	1,373,513,078
Small/Mid Cap Core	
Rhumbline Advisors, L.P. (5/07)	532,398,457
Small/Mid Cap Value	
LSV Asset Management (12/02)	859,152,175
State Street Global Advisors (6/06)	189,060,835
Small/Mid Cap Growth	
Copper Rock Capital Partners, L.L.C. (12/06)	178,757,611
Mazama Capital Management, Inc. (1/03)	440,480,893
Tygh Capital Management, Inc. (6/06)	482,929,118
State Street Global Advisors (6/07)	226,821,841
Small Cap Growth	
Batterymarch Financial Management, Inc. (11/04)	276,231,652
Emerald Advisors, Inc. (11/04)	290,238,768
Mazama Capital Management, Inc. (11/04)	254,205,135
Small Cap Value	
AQR Capital Management, L.L.C. (11/06)	332,414,722
Thompson, Siegel & Walmsley, Inc. (11/04)	349,554,692
Emerging Manager	
Evercore Asset Management, L.L.C. (2/07)*	29,853,557
Piedmont Investment Advisors, L.L.C. (2/07)**	24,877,238

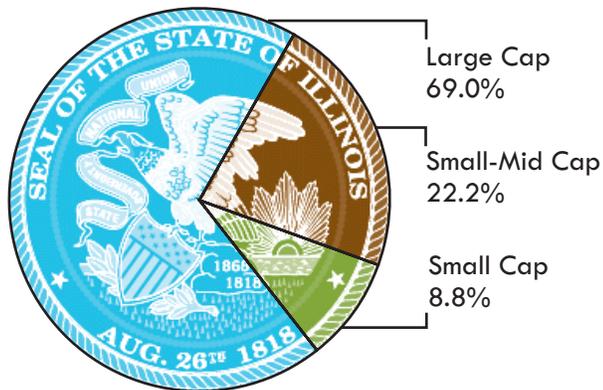
* Style is small cap value

** Style is enhanced index

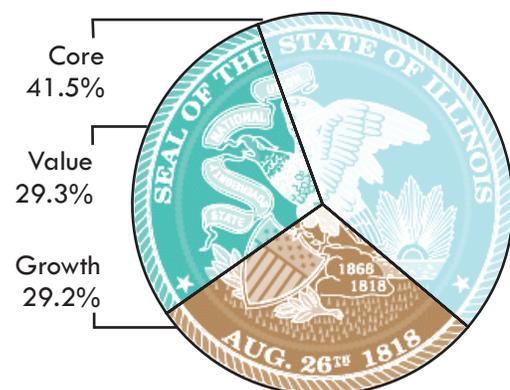
Discussion of U.S. Equity

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 Russell 3000, which is the domestic equity benchmark for TRS, returned a much stronger than average 20.1 percent for the year. For the seventh year, value stocks continued to outperform growth stocks. However, toward the end of the year, this trend showed signs of change. In terms of size, larger capitalization stocks outperformed smaller stocks as investors focused on higher quality, less risky investments.

New additions to TRS's portfolio of investment managers during the year include T. Rowe Price (new mandate in large cap growth), Rhumblin Advisors (new mandate as a small cap index manager), Copper Rock Capital (small-to-mid-cap growth mandate), and AQR Capital Management (small cap value mandate). In addition, TRS made two new investments within the Emerging Manager Program through Evercore Asset Management and Piedmont Investment Advisors.

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, 2007

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$60.0	\$79.7
Price/Earnings Ratio	18.1x	16.8x
Dividend Yield	1.3%	1.7%
Beta	1.1	1.0
5-Year EPS Growth	26.0%	22.1%
Price/Book Ratio	2.8x	2.7x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2007

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	13.3%	11.7%
Consumer Durables	5.9	8.1
Energy	8.6	10.1
Financial Services	19.2	20.4
Health Care	12.3	11.5
Industrials	11.8	11.9
Materials	3.6	3.6
Technology	19.5	15.4
Telecommunication Services	3.5	3.5
Utilities	2.3	3.8
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, 2007, the international equity asset class returned 29.6 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 references) return of 30.2 percent. One-, three-, five- and 10-year comparisons to this benchmark are in the following table:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	29.6%	24.6%	19.5%	9.3%
Non-U.S. Equity Index	30.2	25.0	19.9	8.7

At June 30, 2007, 22.0 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, 2007. 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 10.1 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, 2007

Firm	Country	Market Value (USD)
Nestle	Switzerland	\$140,370,333
GlaxoSmithKline	United Kingdom	131,732,663
Vodafone Group	United Kingdom	101,635,427
BP	United Kingdom	97,420,134
Telefonica	Spain	92,911,001
Royal Bank of Scotland Group	United Kingdom	88,501,418
Canon, Inc.	Japan	84,325,118
China Mobile Ltd.	China	80,185,635
Diageo	United Kingdom	76,023,496
ING Groep	Netherlands	72,398,835
Total		<u><u>\$965,504,060</u></u>

Source: The Northern Trust Company

As of June 30, 2007, TRS employed the following international equity managers including their respective assets under management.

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

Active Core

Brandes Investment Partners, L.P. (2/98)	\$1,376,407,931
Jarislowsky, Fraser Limited (8/05)	660,978,816
McKinley Capital Management, Inc. (8/05)	1,367,494,396
Mondrian Investment Partners Limited (4/93)	1,385,593,329
State Street Global Advisors (8/05)	598,080,413

Passive Non-U.S.

Barclays Global Advisors (5/07)	2,447,473,284
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Emerging Markets

Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	1,318,983,458
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Note: The list does not include managers terminated prior to June 30, 2007 with residual assets in the account.

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio. The actual allocation will become more aligned with the targets as TRS prudently rebalances investments from transitional passive assets to active core accounts while implementing the asset allocation study approved in FY07.

International Equity Manager Structure

International Equity Classification	Target	Actual
Passive Non-U.S.	11.5%	33.4%
Active Core	72.0	52.2
Emerging Markets	16.5	14.4
Total	100.0%	100.0%

International equity markets yielded very strong results again for the year ended June 30, 2007, returning 30.2 percent as measured by the MSCI All Country Ex-U.S. Free Index. The emerging markets, which are the developing economies in the international markets and represent a 17.3 percent weighting in the international index, were the strongest segment, returning 45.5 percent. Within the emerging markets, the Latin American region produced the highest returns, guided by Peru's rise of 111.4 percent. Mexico and Brazil, the two largest countries in Latin America, also posted robust results, returning 64.4 percent

and 61.8 percent, respectively. In the developed portion of the non-U.S. markets, Singapore, which represents only 0.85 percent in the international index, was the best-performing market, rallying by 60.7 percent. Europe, the largest international equity region representing 54.1 percent of the MSCI All Country Ex-U.S. Free Index, outpaced the broader markets advance, appreciating by 33.1 percent. Germany was the best-performing European country, returning 49.6 percent. Japan, which led all of the developed markets last year, posted the lowest absolute returns, appreciating by 7.3 percent.

Within this global investment environment, TRS's managers underweighted some of the more risky markets in Asia and the Far East which, as stated, were the best performers for the year. Despite this headwind, TRS's overweight to the emerging markets was able to move the portfolio's performance in line with the index. Inside the developed markets, TRS was aligned with the benchmark and performed overall as expected.

On the sector level, TRS was underexposed to basic materials and industrials. These sectors have continued to advance beyond TRS managers' expectations. Companies within these industries are often considered much more cyclical in nature and not possessing quality long-term characteristics sought by TRS international equity managers. Instead, the TRS international equity portfolio proved to be too defensive as TRS managers moved assets into lower risk sectors such as telecom, health care, and consumer staples, which underperformed during the fiscal year.

Portfolio Characteristics

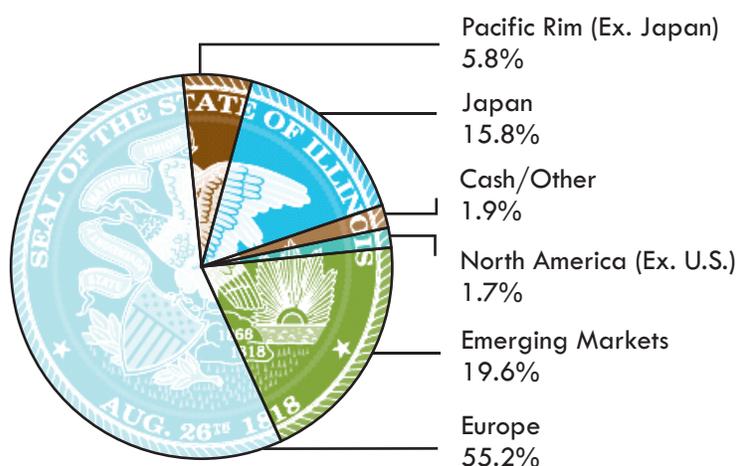
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	\$52.9	\$54.4
Price/Earnings Ratio	16.4x	16.2x
Dividend Yield	2.4%	2.4%
Price/Book Ratio	2.5x	2.5x

Source: The Northern Trust Company

Regional Allocation Comparison June 30, 2007 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, 2007, TRS's fixed income managers earned a 5.9 percent return, net of fees, compared to the 6.1 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:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	5.9%	4.2%	4.7%	5.8%
TRS Fixed Income Blended Index	6.1	4.0	4.6	5.6

As of June 30, 2007, TRS employed fixed income managers overseeing assets of \$7.8 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, core, 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)	\$1,316,242,971
Goldman Sachs Asset Management, L.P. (5/06)	898,947,255
ING Investment Management Company (5/06)	686,746,720
Pacific Investment Management Company, L.L.C. (7/82)	1,747,328,073

Core

Dodge & Cox (11/03)	892,701,693
EARNEST Partners Limited, L.L.C. (2/02)	224,212,379
Taplin, Canida & Habacht (3/04)	449,023,698

Emerging Manager

Dolan McEniry Capital Management, L.L.C. (5/06)	26,494,249
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Enhanced Indexed

Lehman Brothers Asset Management, L.L.C. (2/06)	1,432,343,061
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Note: This list does not include managers terminated prior to June 30, 2007 with residual assets in the account.

The following table lists the top 10 fixed income securities held by TRS's managers as of June 30, 2007. These securities represent 10.0 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, 2007

Security/Position	Rate	Maturity Date	Market Value
Federal National Mortgage Association TBA	5.50%	7/01/2037	\$230,056,478
Federal National Mortgage Association TBA	6.00	7/01/2037	162,771,911
Federal National Mortgage Association	5.00	3/01/2036	137,415,146
U.S. Treasury Inflation Index Linked Bonds	2.61	1/15/2025	92,568,532
United Kingdom (Government) Index Linked Bonds	5.78	8/16/2013	75,235,111
Federal National Mortgage Association TBA	5.50	8/15/2037	73,409,801
U.S. Treasury Inflation Index Linked Notes	2.42	4/15/2011	68,043,155
Federal National Mortgage Association	5.50	2/01/2035	60,308,998
U.S. Treasury Inflation Index Linked Notes	2.38	1/15/2017	59,588,450
Federal National Mortgage Association TBA	5.00	7/01/2037	59,144,919
Total			<u>\$1,018,542,501</u>

Source: The Northern Trust Company

Discussion of Global Fixed Income

At June 30, 2007, 18.6 percent of TRS's investment portfolio was assigned to fixed income managers. At the end of FY07, TRS began reducing fixed income toward the newly established long-term target of 15.0 percent, effective at the beginning of FY08.

Overall, while TRS slightly lagged the assigned benchmark for the year, long-term returns continue to exceed the benchmark over the three-, five-, and 10-year periods. The 10-year annualized fixed income return, net of fees, is 5.8 percent relative to the blended benchmark return of 5.6 percent.

Through the year, the Federal Reserve left interest rates intact at 5.25 percent and corporate spreads remained extremely tight. Given this environment, most of TRS's investment managers were primarily underweight corporate bonds and other structured products, and positioned more heavily in short-term maturities and higher quality paper.

In aggregate, TRS's portfolio was positioned at the front end of the yield curve in expectation of the Federal Reserve eventually cutting key interest rates. As interest rates and bond prices move inversely, TRS's external managers maintained a somewhat defensive posture for most of the year.

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

Statistical Data Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/07	Lehman Brothers Aggregate Bond Index 6/30/07	TRS Fixed Income Portfolio 6/30/06	Lehman Brothers Aggregate Bond Index 6/30/06
Average Maturity	7.2 years	7.3 years	7.3 years	7.4 years
Effective Duration	4.2 years	4.9 years	4.7 years	5.0 years
Average Coupon	4.7%	5.4%	5.1%	5.2%
Average Quality Rating	Aa2	Aaa	Aaa	Aa1
Current Yield	5.0%	5.5%	5.3%	5.2%

Source: Lehman Brothers and TRS

Global Fixed Income Managers Sector Weighting

TRS Fixed Income Portfolio	2007	2006
U.S. Treasury	5.4%	16.0%
Government Bonds — Foreign	0.7	1.0
U.S. Federal Agency	10.1	10.1
Agency Bonds — Foreign	0.2	0.2
Asset Backed Securities — U.S. and Foreign	3.2	6.1
U.S. Mortgage-Backed Securities	36.5	30.9
Commercial Mortgage Backed and Collateralized Mortgages	12.4	11.5
U.S. Corporate or Credit Securities	18.5	16.2
Corporate or Credit Securities — Foreign	2.2	1.8
Inflation-Linked Securities — U.S. and Foreign	0.9	5.0
Municipal and Province	0.1	0.2
Preferred Stock	0.3	0.3
Net Short-term Investments	9.5	0.7
Total	100.0%	100.0%
Total U.S. and Non-U.S. Futures Exposure	17.2%	19.3%
Total Foreign Currency Exposure	2.7	4.8
Total Swap Exposure — Ex-Swaptions	7.6	3.7
Total High Yield Exposure	2.6	5.0
Total Emerging Markets Debt Exposure	1.0	1.2

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2007	2006
Agency	12.2%	13.1%
Treasury	5.1	19.0
Aaa	58.7	43.9
Aa1 through Aa3	7.2	9.1
A1 through A3	4.9	4.3
Baa1 through Baa3	6.0	7.0
Ba1 through Ba3	2.9	2.2
B1 through B3	1.4	0.7
Other*	1.6	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

Real Return

The real return asset class was established as a result of the asset allocation study completed in FY07. The asset class is an important recognition of the significant impact inflation can have on an investment portfolio and its return objectives. Traditional asset classes, such as stocks and bonds, tend to perform well in periods of stable or falling inflation. However, inflationary periods have historically been very challenging for these classes.

Given the objective for an inflation focused component of the portfolio, a long-term target of 10.0 percent was approved for real return assets. The asset class will invest in securities and styles that are benchmarked to the Consumer Price Index + 5.0 percent.

Initial funding of the real return asset class was approved late in the fiscal year, with full implementation expected during FY08. Due to the funding within the last days of the fiscal year, performance information for these assets is not available or relevant. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

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

Global Inflation-Linked

Pacific Investment Management Company, L.L.C. (5/07)	\$399,981,353
Western Asset Management Company (2/05)*	450,045,564

* Manager was formerly included in the fixed income asset class.

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 privately held companies 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, 2007, private equity outperformed the benchmark by 5.6 percentage points.

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 11.4 percent over the 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is well above expectations. One-, three-, five- and 10-year comparisons to this benchmark are noted in the following table:

	FY07	3-Year	5-Year	10-Year
TRS, net of fees	29.3%	24.3%	13.4%	19.8%
Russell 3000 Index + 3.0%	23.7	15.8	14.9	8.4

At June 30, 2007, 4.6 percent of the TRS investment portfolio was assigned to the private equity asset class. The following chart lists the private equity partnerships/funds and the respective assets under management that TRS has hired or made commitments as of June 30, 2007.

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

Buyout	
Apollo Investment Fund V, L.P. (5/01)	\$108,322,821
Apollo Investment Fund VI, L.P. (8/05)	62,942,423
Carlyle Partners IV, L.P. (12/04)	78,877,385
Carlyle Partners V, L.P. (5/07)*	-
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	147,401,169
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	38,378,497
Castle Harlan Partners IV, L.P. (5/03)	27,648,674
Code Hennessy & Simmons V, L.P. (2/05)	9,754,630
DLJ Merchant Banking Partners, L.P. (9/92)	6,222,465
DLJ Merchant Banking Partners II, L.P. (3/97)	14,055,029
DLJ Merchant Banking Partners III, L.P. (9/00)	85,654,854
Elevation Partners, L.P. (2/05)	7,449,396
Energy Capital Partners I, L.P. (2/06)	6,393,348
Evercore Capital Partners II, L.P. (4/03)	40,914,087
Glencoe Capital Partners III, L.P. (1/04)	5,732,258
Glencoe Capital Institutional Partners III, L.P. (6/04)	6,983,694
Green Equity Investors V, L.P. (2/07)*	-
GTCR Fund VII/VIIA, L.P. (3/00)	44,287,638
GTCR Fund VIII, L.P. (7/03)	42,642,068
Hispania Private Equity, L.P. (5/04)	1,167,994
ICV Partners II, L.P. (12/05)	1,631,549
J.C. Flowers II, L.P. (2/07)	11,093,290
KKR 1996 Fund, L.P. (5/97)	23,238,914
Lehman Brothers Merchant Banking III, L.P. (2/05)	33,839,784
Lehman Brothers Merchant Banking, IV, L.P. (2/07)*	-
Madison Dearborn V, L.P. (7/06)	52,815,863
Mesirov Capital Partners VII, L.P. (6/97)	1,804,914
New Mountain Capital Partners III, L.P. (5/07)*	-
Providence Equity Partners (3/07)	16,090,050
Reliant Equity Partners, L.P. (6/04)	3,911,985
Silver Lake Partners III, L.P. (2/07)*	-
TCW/Latin America Private Equity Partners, L.P. (5/97)	583,395
Thayer Equity Investors V, L.P. (5/03)	36,156,735
TPG Partners IV, L.P. (12/03)	44,519,222
Trivest Fund II, Ltd. (6/96)	8,831,251
VS&A Communications Partners II, L.P. (9/95)	2,402,292
VSS Communication Partners IV, L.P. (2/05)	19,506,217
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	30,653,555
Windpoint Partners VI, L.P. (5/05)	7,279,593
WPG Corporate Development Associates V, L.P. (11/97)	5,393,863
Distressed Debt	
Carlyle Strategic Partners, L.P. (2/04)	24,895,052
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	51,581,475
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	1,587,044
OCM Opportunities Fund V, L.P. (6/04)	42,808,279
Special Situations	
Banc Fund VI, L.P. (12/02)	51,393,043
Banc Fund VII, L.P. (5/05)	28,512,867
Subordinated Debt	
Merit Mezzanine Fund IV, L.P. (2/04)	27,212,284
Prism Mezzanine Fund, L.P. (5/04)	6,889,615
SW Pelham Fund II, L.P. (9/03)	17,783,341
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	28,367,020
William Blair Mezzanine Capital Fund II, L.P. (5/97)	13,766,966
William Blair Mezzanine Capital Fund III, L.P. (1/00)	13,993,792

*Partnership was not funded at June 30, 2007; date reflects the TRS Board of Trustees approval.

Continued

Venture Capital

21st Century Communications T-E Partners, L.P. (2/95)	\$335,270
Apex Investment Fund III, L.P. (6/96)	2,407,910
Apex Investment Fund V, L.P. (8/03)	25,981,770
Carlyle Venture Partners II, L.P. (10/02)	106,325,277
Carlyle Venture Partners III, L.P. (6/07)	9,759,082
Edgewater Growth Capital Partners, L.P. (11/03)	21,420,455
Edgewater Growth Capital Partners II, L.P. (2/05)	6,278,208
Evergreen Partners IV, L.P. (12/02)	14,233,441
Evergreen Partners V, L.P. (6/07)	2,961,845
Frontenac VI, L.P. (6/93)	535,007
Granite Ventures II, L.P. (5/05)	3,151,776
HealthPoint Partners, L.P. (6/04)	29,787,351
Hopewell Ventures, L.P. (6/04)	2,276,267
Illinois Emerging Technologies Fund, L.P. (6/04)	1,273,998
Penman Private Equity and Mezzanine Fund, L.P. (10/94)	314,196
SCP Private Equity Partners, L.P. (5/97)	7,272,974
SCP Private Equity Partners II, L.P. (6/00)	63,921,580
Shasta Ventures, L.P. (12/04)	11,639,054
VantagePoint Venture Partners IV, L.P. (6/00)	60,715,678
VantagePoint Venture Partners 2006, L.P. (12/06)	1,275,821
Warburg Pincus International Partners, L.P. (9/00)	102,218,231
Warburg Pincus International Partners IX, L.P. (8/05)	71,548,088
WPG Enterprise Fund II, L.P. (8/94)	10,622,596
WPG Enterprise Fund III, L.P. (3/97)	32,313,959

Discussion of Private Equity

In FY07, TRS's private equity portfolio continued to generate strong performance results. With the strength of the program and the increasing quality of the portfolio, the TRS Board of Trustees affirmed its commitment to private equity, raising the asset class's long-term target to 8.0 percent, effective FY08. As such, TRS continues to steadily and prudently increase its exposure to private equity, with the full target allocation to the asset class expected in FY11. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality opportunities in the market. The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2007:

Private Equity Target and Actual Allocation as of June 30, 2007

Subclasses	Target	Actual
Buyout	60-70%	53.3%
Venture Capital	10-20	30.6
Special Situations/Distressed Debt/Subordinated Debt	5-15	16.1
Total		100.0%

Source: TRS and The Northern Trust Company

TRS made commitments to 10 private equity funds totaling \$900 million during the year. While investments were made within all subclasses, the commitments over the past year have had a slightly higher concentration within the buyout sector as TRS attempts to increase its exposure in that sector. Going forward, the TRS Tactical Plan calls for committing approximately \$800 to \$1,200 million per year as TRS invests toward its long-term allocation goal.

Absolute Return

Along with the real return asset class, the absolute return class was established as a result of the FY07 asset allocation study. Like the addition of real return assets, investments in the absolute return class are designed to reduce the risk and volatility of the overall TRS portfolio. The asset class is designed such that absolute return investments adequately protect assets, even in the most difficult investment environments for traditional stocks and bonds.

Investments in this asset class will be administered via diversified fund of funds investment managers, with a long-term target of 2.5 percent of the overall TRS investment portfolio. Managers in this new strategy are benchmarked a relative risk-free index of 90-Day Treasury Bills + 4.0 percent.

Initial funding of TRS's absolute return investment managers was made at the end of the fiscal year. As such, performance information is not available or relevant. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

Absolute Return Managers and Assets Under Management (inception date of account)

Diversified Fund of Funds	
K2 Advisors, L.L.C. (6/07)	\$250,000,000
Grosvenor Capital Management, L.L.C. (6/07)	240,000,000

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.

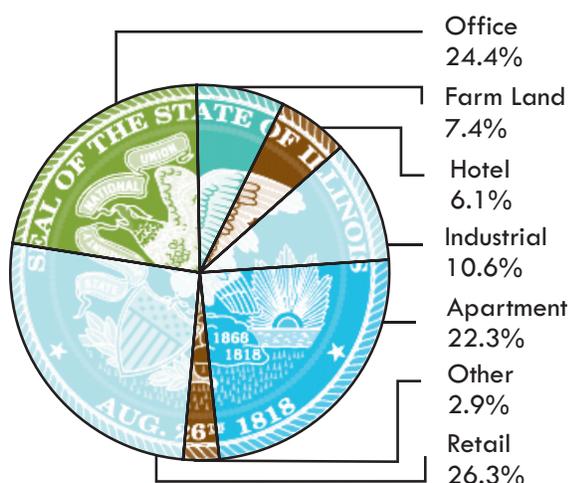
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2007, TRS had over \$4.7 billion in real estate assets, or 11.3 percent of the total fund portfolio. For the year, TRS's real estate investments returned 25.3 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:

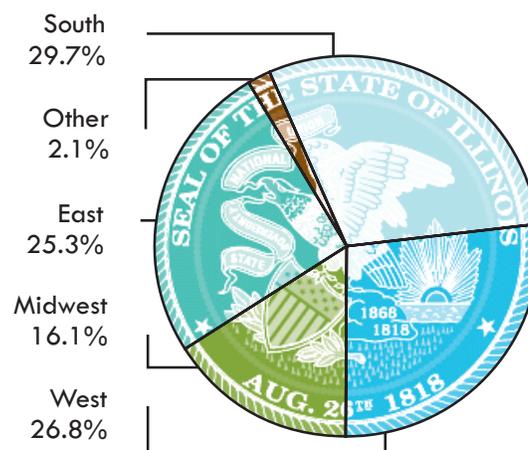
	FY07	3-Year	5-Year	10-Year
TRS, net of fees	25.3%	21.3%	17.1%	13.4%
Real Estate Property Index	17.2	18.0	14.4	11.8

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

Real Estate Holdings by Type as of June 30, 2007



Geographic Diversification of Real Estate Holdings as of June 30, 2007



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 and open end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2007, TRS employed the following managers including their respective assets under management.

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

Separate Accounts

Capri/Capital Advisors, L.L.C. (12/91)	\$1,397,519,807
Cozad/Westchester Asset Management, Inc. (5/91)	348,831,296
Commonwealth Realty Advisors, Inc. I (9/91)	896,265,025
Commonwealth Realty Advisors, Inc. II (11/92)	159,463,556
Koll Bren Schreiber Realty Advisors I (6/93)	460,757,101
Koll Bren Schreiber Realty Advisors II (5/96)	348,847
LPC Realty Advisors I, Ltd. (7/92)	351,506,203
LPC Realty Advisors Core, Ltd. (4/07)	45,238,323
Stone-Levy, L.L.C. (4/95)	223,937,322

Closed End Accounts

Capri/Capital Apartment Fund III (3/90)	143,921,920
Capri Select Income Fund II, L.L.C. (12/05)	17,159,581
Carlyle Realty Partners IV (6/05)	61,913,853
DLJ Real Estate Capital Partners, Inc. (3/96)*	1,971,390
JBC Opportunity Fund II, L.P. (7/03)	36,510,916
JER Real Estate Partners III, L.P. (1/05)	50,493,174
RLJ Lodging Fund II (9/06)	35,074,913
RREEF Capital II, L.L.C. (11/96)*	303,110
Thayer Hotel IV (5/04)	8,662,733
Walton Street Capital, L.L.C. (7/03)	98,618,928

Open End Accounts

Hines-Sumisei U.S. Core Office (12/05)	182,443,987
Lion Industrial Trust (4/05)	132,134,071

International Real Estate Accounts

Carlyle Europe Real Estate Partners, L.P. (6/03)	78,212,324
CB Richard Ellis Strategic Partners Europe III (4/07)	202,447
CB Richard Ellis Strategic Partners U.K. III (5/07)	751,290

* In liquidation mode.

Discussion of Real Estate

Competition among institutional investors for quality real estate assets has made the search for new investments more challenging, but TRS was able to achieve some growth toward the interim target of 12 percent. In FY07, the TRS real estate portfolio grew from 10.8 percent of the total investment portfolio to 11.3 percent. TRS will continue toward the long-term target by prudently seeking new investments that meet TRS return expectations. Separately, TRS continued to upgrade the quality of the real estate portfolio by selling older assets and recognizing profits. This activity will continue in FY08. Finally, TRS began planning for international investments to the real estate portfolio. Through the selection of highly qualified international fund sponsors, TRS expects to identify investments that will further enhance the return expectations of the portfolio as well as further diversify the portfolio geographically.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2007 and 2006. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2007, TRS recaptured over \$1.1 million in cash that was reinvested back into the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY07, TRS used \$1.4 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY07 Commission	FY06 Commission
Goldman Sachs & Co. (Worldwide)	\$1,716,043	\$1,444,988
Merrill Lynch & Co., Inc. and all subsidiaries (Worldwide)	1,400,230	1,490,020
UBS Warburg Securities and all subsidiaries (Worldwide)	1,051,721	1,001,870
Lehman Brothers, Inc. (Worldwide)	941,406	551,360
BNY Convergenx Securities	907,517	1,122,078
Citigroup Inc., and all subsidiaries (Worldwide)	853,951	701,306
Credit Suisse (Worldwide)	828,315	679,830
J.P. Morgan Securities, Inc. (Worldwide)	716,283	729,448
Morgan Stanley & Co., Inc. and all subsidiaries (Worldwide)	690,317	680,192
Bear Stearns Securities Corp. (Worldwide)	596,282	337,475
Investment Technology Group, Inc. (Worldwide)	564,341	270,857
Pershing Securities, L.L.C.	564,042	637,463
State Street Brokerage Services	543,543	430,258
Liquidnet, Inc.	483,064	395,219
Deutsche Bank & Securities (Worldwide)	402,560	396,709
Societe Generale (Worldwide)	368,858	115,701
B-Trade Services, L.L.C.	315,430	325,621
Jefferies & Company	302,342	282,813
Banc of America Securities	267,801	158,775
Ivy Securities, Inc.	261,772	170,178
Macquarie Bank & Securities, Ltd. (Worldwide)	259,331	105,183
Pulse Trading, L.L.C.	170,655	80,397
Melvin Securities, Inc.	169,929	136,538
SG Cowen & Company (Worldwide)	168,377	62,330
Knight Securities, L.P.	145,352	58,874
Guzman & Company	136,852	97,230

Continued

Broker	FY07 Commission	FY06 Commission
Credit Lyonnais Securities (Worldwide)	\$134,710	\$99,918
Thomas Weisel Partners, L.L.C.	134,272	166,091
Piper Jaffray, Inc.	131,757	94,608
Instinet, L.L.C. (Worldwide)	130,727	80,206
CL King & Associates, Inc.	128,165	61,372
Magna Securities Corp.	124,293	57,402
Nomura International (Worldwide)	121,151	46,846
Daiwa Securities (Worldwide)	118,495	71,988
ABN AMRO Securities (Worldwide)	117,399	123,653
Loop Capital Markets, L.L.C.	109,844	54,821
PCS Securities, Inc.	108,412	71,262
Cantor Fitzgerald	104,298	111,002
Williams Capital Group, L.P.	103,205	47,373
D.A. Davidson & Co.	99,935	46,567
CIBC World Markets Corp.	99,911	100,861
M. Ramsey King Securities	96,911	95,602
Pipeline Trading Systems, L.L.C.	96,542	28,650
Robert W. Baird & Company, Inc.	96,331	78,380
Friedman, Billing, and Ramsey	95,341	59,493
Weeden & Co.	92,150	127,551
Greentree Brokerage, Inc.	85,224	16,246
SunTrust Robinson Humphrey, Inc.	83,531	41,508
Capital Institutional Services, Inc.	77,260	98,501
Cabrera Capital Markets, Inc.	75,172	156,206
All Others (FY07, 233 Brokers)	3,824,637	4,275,027
Totals	<u>\$21,215,987</u>	<u>\$18,673,847</u>

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2007, fee payments to external investment managers totaled \$138.5 million, an increase of 15.2 percent from the year ended June 30, 2006. The increase is attributable to TRS's increased allocation to the private markets asset classes, the decreasing allocation to index funds, and the growth of TRS total fund.

Schedule of Investment Manager Fees

Investment Manager/Account	FY07	FY06
21st Century Communications T-E Partners, L.P.	\$8,622	\$4,527
Advisory Research, Inc.	-	145,094
Apex Investment Fund III, L.P.	111,319	324,969
Apex Investment Fund V, L.P.	450,000	478,985
Apollo Investment Fund V, L.P.	-	-
Apollo Investment Fund VI, L.P.	728,254	711,929
AQR Capital Management, L.L.C.	1,162,623	-
Ariel Capital Management, Inc.	-	945,982
Artisan Partners Limited Partnership	-	26,950
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	512,595	235,207

Continued

Investment Manager/Account	FY07	FY06
Barclays Global Investors	\$1,896,168	\$1,677,979
Batterymarch Financial Management, Inc.	1,594,576	1,484,440
Bear Stearns Asset Management, Inc.	-	574,511
BlackRock, Inc.	857,315	1,665,194
Brandes Investment Partners, L.P.	4,608,014	3,872,812
Byram Capital Management, L.L.C.	1,040,534	1,109,261
Capri/Capital Advisors, L.L.C.	4,272,463	4,299,881
Capri Capital Apartment Fund III	1,426,565	1,277,372
Capri Select Income II, L.L.C.	250,000	250,426
Carlyle Europe Real Estate Partners, L.P.	278,683	199,526
Carlyle Group Partners IV, L.P.	573,479	1,276,903
Carlyle Group/Realty Partners IV, L.P.	688,354	922,625
Carlyle Group/Riverstone Global Energy Fund II, L.P.	724,023	862,502
Carlyle Group/Riverstone Global Energy Fund III, L.P.	1,267,627	909,864
Carlyle Group/Strategic Partners, L.P.	350,000	749,830
Carlyle Ventures Capital II, L.P.	1,906,673	3,750,000
Carlyle Ventures Capital III, L.P.	1,082,191	-
Castle Harlan Partners IV, L.P.	211,227	330,316
CB Richard Ellis Strategic Partners Europe Fund III	216,003	-
CB Richard Ellis Strategic Partners UK Fund III	153,814	-
Code Hennessy & Simmons V, L.P.	-	82,945
Commonwealth Realty Advisors, Inc.	3,944,398	3,983,186
Copper Rock Capital Partners, L.L.C.	254,563	-
Cozad/Westchester Asset Management, Inc.	2,129,118	1,842,085
Delaware Investment Advisers	1,886,789	3,284,008
DLJ Merchant Banking Partners, L.P.	-	-
DLJ Merchant Banking Partners II, L.P.	218,046	195,597
DLJ Merchant Banking Partners III, L.P.	305,266	33,120
DLJ Real Estate Capital Partners, Inc.	55,750	128,151
Dodge & Cox	4,891,882	4,790,009
Dolan McEniry Capital Management, L.L.C.	78,292	6,234
EARNEST Partners, L.L.C.	907,699	1,141,435
Edgewater Growth Capital Partners, L.P.	-	-
Elevation Partners, L.P.	291,531	149,359
Emerald Advisers, Inc.	1,612,484	1,418,263
Energy Capital Partners I, L.P.	482,849	360,189
Evercore Asset Management, L.L.C.	79,683	-
Evercore Capital Partners II, L.P.	682,670	815,485
Evergreen Partners IV, L.P.	615,864	619,180
Evergreen Partners V, L.P.	655,907	-
Frontenac VI, L.P.	-	-
Glencoe Capital Partners III, L.P.	373,422	307,606
Goldman Sachs Asset Management, L.P.	1,304,252	104,604
Granite Ventures II, L.P.	378,474	194,740
Grantham, Mayo, Van Otterloo & Co., L.L.C.	8,801,051	6,903,426
Great Lakes Advisors, Inc.	38,840	374,621
GTCR Fund VII/VIIA, L.P.	359,034	-
GTCR Fund VIII, L.P.	-	-
Harris Associates, L.P.	2,425,272	2,419,282
HealthPoint Partners, L.P.	261,633	344,935
Hines-Sumisei U.S. Core Office Fund, L.P.	336,757	60,008
Hispania Private Equity, L.P.	310,925	316,119
Holland Capital Management, L.P.	536,453	958,086
Hopewell Ventures, L.P.	534,750	383,273
ICV Partners II, L.P.	260,776	280,685

Continued

Investment Manager/Account	FY07	FY06
Illinois Emerging Technologies Fund, L.P.	\$36,000	\$44,563
ING Investment Management Company	1,030,781	79,694
INVESCO Global Asset Management (N.A.), Inc.	2,702,958	2,564,225
J & W Seligman & Co., Inc.	-	525,451
Jarislowsky, Fraser Limited	986,720	745,668
JBC Opportunity Fund II, L.P.	953,496	1,250,000
J.C. Flowers & Co., L.L.C.	527,537	-
JER Real Estate Partners III, L.P.	956,249	956,249
KKR 1996 Fund, L.P.	90,474	18,936
Koll Bren Schreiber Realty Advisors	6,455,556	4,384,896
Lehman Brothers Asset Management, L.L.C.	386,375	98,091
Lehman Brothers Merchant Banking Partners III, L.P.	674,590	750,000
Lion Industrial Trust	1,318,769	903,095
LM Capital Group, L.L.C.	-	98,619
LPC Realty Advisors, Ltd.	6,535,131	2,355,153
LSV Asset Management	3,942,090	3,489,731
Madison Dearborn Partners, L.L.C.	1,112,044	-
MatlinPatterson Global Opportunities Fund II, L.P.	1,009,340	986,173
MatlinPatterson Global Opportunities Fund III, L.P.	312,409	-
Mazama Capital Management, Inc.	3,110,594	2,691,432
McKinley Capital Management, Inc.	2,994,981	1,927,935
Merit Mezzanine Fund IV, L.P.	865,956	885,887
Mesirow Capital Partners VII, L.P.	-	31,250
Mondrian Investment Partners Limited	2,910,449	2,165,400
NCM Capital Advisers, Inc.	246,763	20,721
Northern Trust Global Investments	-	34,682
OCM Opportunities Fund V, L.P.	311,997	312,500
Pacific Investment Management Company, L.L.C.	2,063,579	2,927,368
Payden & Rygel	475,559	929,479
Penman Private Equity & Mezzanine Fund, L.P.	-	-
Periscope I Fund, L.P.	-	3,553
Piedmont Investment Advisors, L.L.C.	3,289	-
Prism Mezzanine Fund, L.P.	639,962	626,973
Providence Equity Partners VI, L.P.	320,146	-
Pyramis Global Advisors	2,618,206	2,580,473
Reliant Equity Partners, L.P.	160,639	186,213
RhumbLine Advisers, L.P.	122,457	5,766
RLJ Capital Partners II, L.L.C.	722,603	-
Robeco Boston Partners Asset Management, L.P.	1,494,198	1,384,779
Robeco Weiss, Peck & Greer Investments	490,014	633,533
RREEF Capital II, L.L.C.	-	-
Sands Capital Management, Inc.	-	1,013,061
SCP Private Equity Partners, L.P.	136,594	148,415
SCP Private Equity Partners II, L.P.	1,137,320	2,000,000
Shasta Ventures, L.P.	-	-
State Street Global Advisors	475,536	530,047
Stone-Levy, L.L.C.	1,597,208	1,725,390
SW Pelham Fund II, L.P.	355,051	265,416
T. Rowe Price Associates, Inc.	4,336,107	2,729,431
Taplin, Canida & Habacht	604,745	471,057
TCW/Latin American Private Equity Partners, L.P.	-	-
Thayer Equity Investors V, L.P.	500,202	354,473
Thayer Hotel IV	328,806	-
The Northern Trust Company (Custody)	550,000	533,891
Thompson, Siegel & Walmsley, Inc.	1,844,131	1,569,773

Continued

Investment Manager/Account	FY07	FY06
TPG Partners IV, L.P.	\$50,481	-
Trivest Fund II, Ltd.	(12,994)	12,994
Turner Investment Partners, Inc.	3,267,811	1,988,040
Tygh Capital Management, Inc.	2,437,786	157,915
UBS Global Asset Management (Americas), Inc.	-	1,432,903
VantagePoint Venture Partners IV, L.P.	-	-
VantagePoint Venture Partners 2006, L.P.	-	-
Voyageur Asset Management, Inc.	1,364,685	1,299,376
VS&A Communications Partners II, L.P.	-	-
VSS Communications Partners IV, L.P.	746,046	738,232
Walton Street Capital, L.L.C.	1,314,459	993,097
Warburg Pincus International Partners, L.P.	-	-
Warburg Pincus Private Equity IX, L.P.	2,182,692	746,534
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	327,622	250,864
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	755,275	825,859
Western Asset Management Company	2,102,306	2,041,662
William Blair Mezzanine Capital Fund II, L.P.	122,623	113,246
William Blair Mezzanine Capital Fund III, L.P.	252,432	383,744
Wind Point Partners VI, L.P.	305,887	135,704
WPG Corporate Development Associates V, L.P.	107,973	129,872
WPG Enterprise Fund II, L.P.	120,218	150,955
WPG Enterprise Fund III, L.P.	229,914	262,332
Total fees paid by TRS	<u>\$138,510,254</u>	<u>\$120,188,362</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

	Amount
Northern Trust FY07 Net Securities Lending Income	\$13,825,145
Total Northern Trust (6/30/07) Collateral Market Value	5,797,727,890
Total Market Value of Securities on Loan at Northern Trust (6/30/07)	5,641,466,575
Total Collateralized Percentage	103%

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. The income earned from securities lending activities within these indexed funds was reinvested back into the respective fund.