

INVESTMENTS

Pencil by Jael Bietsch, TRS employee.



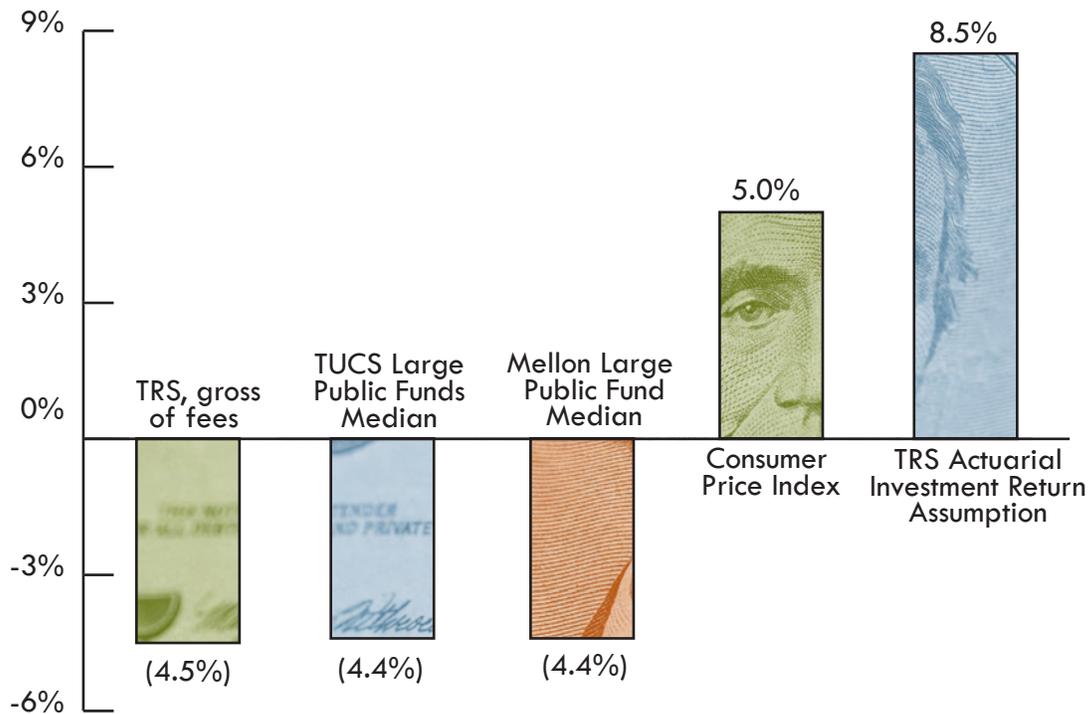
***“Every blade of grass is a study;
and to produce two, where there was
but one, is both a profit and a pleasure.”***

Introduction

The TRS investment portfolio declined 4.5 percent, gross of fees, for the fiscal year ending June 30, 2008 as the United States and global markets entered an unprecedented period of economic uncertainty. The loss follows strong FY07 performance of 19.6 percent, gross of fees, with total fund assets falling from a peak of \$42.0 billion to \$39.2 billion. Slowing global growth, inflationary pressures, and credit market turmoil were especially challenging to the global equity markets with U.S. and international stocks falling 15.1 percent and 7.7 percent, respectively. Helping to offset these losses somewhat was the strong performance of TRS's new real return asset class which was added to the System's asset allocation at the beginning of the fiscal year as a means to protect the portfolio in an inflationary environment. As the inflation rate increased through the year, TRS real return asset class produced a 20.5 percent return.

The TRS investment portfolio continued to rank highly against its peers. Over the past 10 years, TRS ranks in the top 15 percent of the large public funds in the Wilshire Trust Universe Comparison Service (TUCS).

Return Comparison for the Year Ended June 30, 2008



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

Total TRS investments, including accrued income, decreased by approximately \$2.7 billion during the year ended June 30, 2008. This represents the first loss following five years of positive returns.

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, 2007 through June 30, 2008. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2008. 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, 2008

Total Fund Market Value	\$39.5 billion
One-Year Return (net of fees)	(5.0%)
Five-Year Return (net of fees)	10.3%
Ten-Year Return (net of fees)	6.9%
Percent Externally Managed	100.0%
Number of External Managers	128
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 21, 2008, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2007.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2008, TRS’s total investments, including accrued investment income, at market value totaled \$39.5 billion, a decrease of \$2.7 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 decline of 4.5 percent, gross of fees, and 5.0 percent, net of fees, for the one-year period ending June 30, 2008. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance for FY08 lagged the policy index decline of 4.1 percent for the year ended June 30, 2008. 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 lagged 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 6/30/08		
	2008	2007	2006	2005	2004	3 Years	5 Years	10 Years
TRS Total Fund	(5.0%)	19.2%	11.8%	10.8%	16.5%	8.2%	10.3%	6.9%
TRS Weighted Policy Index	(4.1)	17.9	11.3	10.7	16.0	8.0	10.1	6.3
CPI (Inflation)	5.0	2.7	4.3	2.5	3.3	4.0	3.6	3.0
TRS Equity - U.S.	(15.1)	19.4	9.6	8.1	21.6	3.6	7.9	3.2
Russell 3000 Index	(12.7)	20.1	9.6	8.1	20.5	4.7	8.4	3.5
TRS Fixed Income	5.1	5.9	0.1	6.6	0.7	3.7	3.7	5.3
TRS Weighted Fixed Income Index	7.1	6.1	(0.7)	6.8	0.3	4.1	3.9	5.5
Lehman Brothers Aggregate Index	7.1	6.1	(0.8)	6.8	0.3	4.1	3.9	5.7
TRS Equity - International	(7.7)	29.6	27.3	17.3	32.8	15.0	18.8	8.2
Non-U.S. Equity Index	(6.2)	30.2	28.4	17.0	32.5	16.2	19.4	7.8
TRS Real Estate	4.5	25.3	18.8	19.9	13.2	15.9	16.1	12.3
Real Estate Property Index	9.2	17.2	18.7	18.0	10.8	15.0	14.7	11.9
TRS Private Equity	3.3	29.3	23.8	20.0	10.3	18.3	17.0	16.7
Russell 3000 Index + 3.0%*	(10.0)	23.7	12.9	11.3	24.1	7.9	11.7	6.0
TRS Real Return	20.5	-	-	-	-	-	-	-
CPI (Inflation) + 5.0%	10.3	-	-	-	-	-	-	-
TRS Absolute Return	0.9	-	-	-	-	-	-	-
90-Day Treasury Bill + 4.0%*	7.8	-	-	-	-	-	-	-
TRS Short-Term Investments	2.3	5.4	4.2	2.2	1.1	4.0	3.0	3.7
ML 3 Month T-bill Index	3.6	5.2	4.0	2.2	1.0	4.3	3.2	3.6

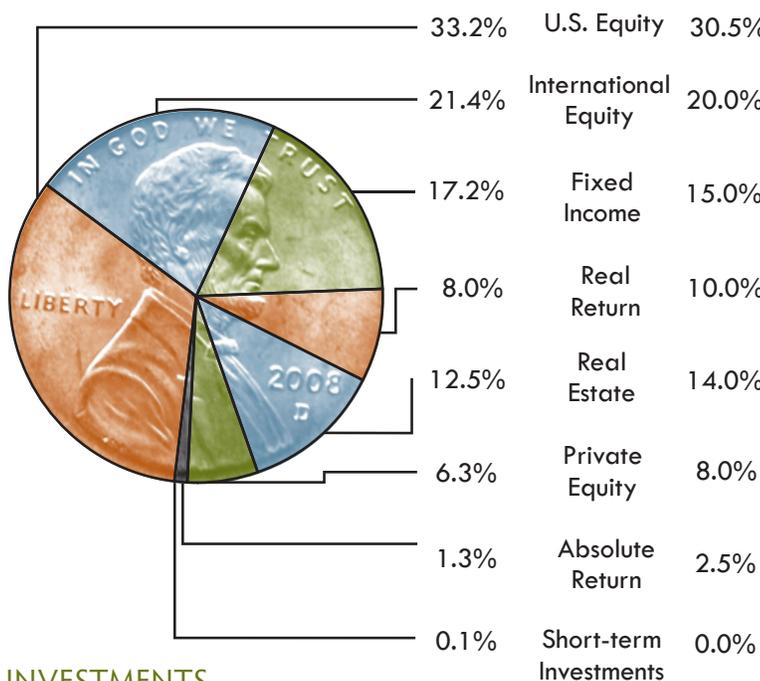
* Index compounded monthly.

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

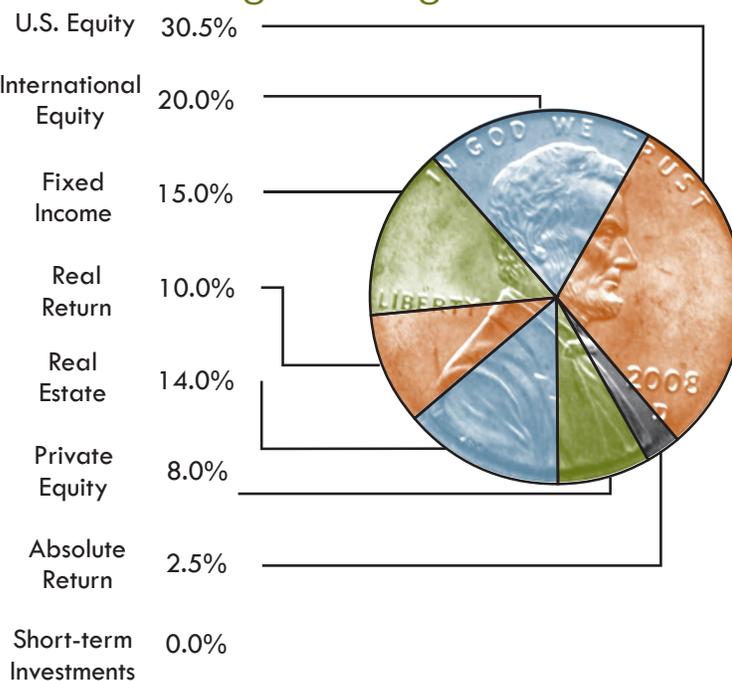
Asset Allocation vs. Targets

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.

FY08 Asset Allocation



Long-term Target Allocation



In FY08, TRS continued implementation of the latest asset allocation study that was completed in FY07. Following five years of strong investment performance, in FY07 the TRS Board of Trustees approved a new asset allocation, including initial investments within the real return and absolute return asset classes, as a means to further diversify the overall investment portfolio and reduce risk.

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, 2008.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/08	FY08			FY07	
	Total Fund \$ Millions	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$12,749	33.2%	37.0%	30.5%	40.1%	41.0%
International Equities	8,191	21.4	20.0	20.0	22.0	15.0
Fixed Income	6,588	17.2	16.0	15.0	18.6	23.0
Real Return	3,058	8.0	7.7	10.0	2.0	-
Real Estate	4,798	12.5	12.0	14.0	11.3	14.0
Private Equity	2,404	6.3	6.0	8.0	4.6	6.0
Absolute Return	504	1.3	1.3	2.5	1.2	-
Short-Term Investments	58	0.1	-	-	0.2	1.0
Pending Settlements/Expenses*	1,146	NA	NA	NA	NA	NA
Total Fund	\$39,496	100.0%	100%	100%	100.0%	100.0%

* 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 assignment is treated as equity on the Strategic Investment Listing, but categorized as bonds and corporate obligations in the securities summary. This manager provides 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

	2008		2007	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. Treasuries	\$710,206,700	1.8%	\$513,731,037	1.2%
U.S. Federal Agencies	492,181,750	1.3	1,217,042,065	2.9
U.S. Government Index Linked Bonds	296,216,084	0.8	449,648,751	1.0
U.S. Government Backed Mortgages	2,374,253,476	6.0	3,192,471,823	7.6
U.S. Municipals (Taxable)	28,296,195	0.1	301,251	-
Credits				
Bank Loans	30,986,760	0.1	31,879,635	0.1
Financial	1,319,616,385	3.3	1,167,521,985	2.8
Industrial	706,891,256	1.8	576,206,932	1.3
Utilities	112,941,987	0.3	167,080,757	0.4
Structured Notes	3,000,000	-	2,998,179	-
Asset Backed Securities	370,453,273	0.9	536,240,991	1.3
Commercial Mortgage Backed Securities	361,639,452	0.9	493,727,355	1.2
Collateralized Mortgage Obligations	755,133,505	1.9	848,151,787	2.0
Commingled/Closed End Funds	81,924,023	0.2	39,010,178	0.1
Corporate Convertible Bonds	6,493,000	-	4,492,094	-
Foreign Debt Obligations	1,319,829,277	3.3	900,493,848	2.1
Total Bonds, Corporate Notes, and Government Obligations	8,970,063,123	22.7	10,140,998,668	24.0
Equities				
Common Stock - U.S.	10,833,227,881	27.4	13,908,176,627	32.9
Preferred Stock - U.S.	30,706,395	0.1	33,817,240	0.1
Common Stock - International	8,183,568,806	20.7	9,360,153,385	22.2
Preferred Stock - International	296,230,161	0.8	185,832,865	0.4
Total Equities	19,343,733,243	49.0	23,487,980,117	55.6
Real Return – Commingled Funds				
Commodity Funds	652,811,731	1.7	-	-
Global Macroeconomic Strategies	1,465,924,159	3.7	-	-
Total Real Return – Commingled Funds	2,118,735,890	5.4	-	-
Short-term Investments/Cash Equivalents	1,330,031,596	3.4	1,474,343,766	3.5
Derivatives—Options, Futures, and Swaps	(25,678,522)	(0.1)	847,479	-
Foreign Currency	60,605,839	0.1	49,081,933	0.1
Absolute Return	504,224,094	1.3	490,000,000	1.2
Private Equity	2,399,224,145	6.1	1,894,311,762	4.5
Real Estate Equity	4,794,916,293	12.1	4,693,519,131	11.1
TRS Total Portfolio	<u>\$39,495,855,701</u>	<u>100.0%</u>	<u>\$42,231,082,856</u>	<u>100.0%</u>

Reconciliation of TRS Portfolio Securities Summary to Total Investments

	2008	2007
TRS Total Portfolio	\$39,495,855,701	\$42,231,082,856
Less Accrued Income	(286,808,705)	(278,001,913)
Investments at Fair Value	<u>\$39,209,046,996</u>	<u>\$41,953,080,943</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.

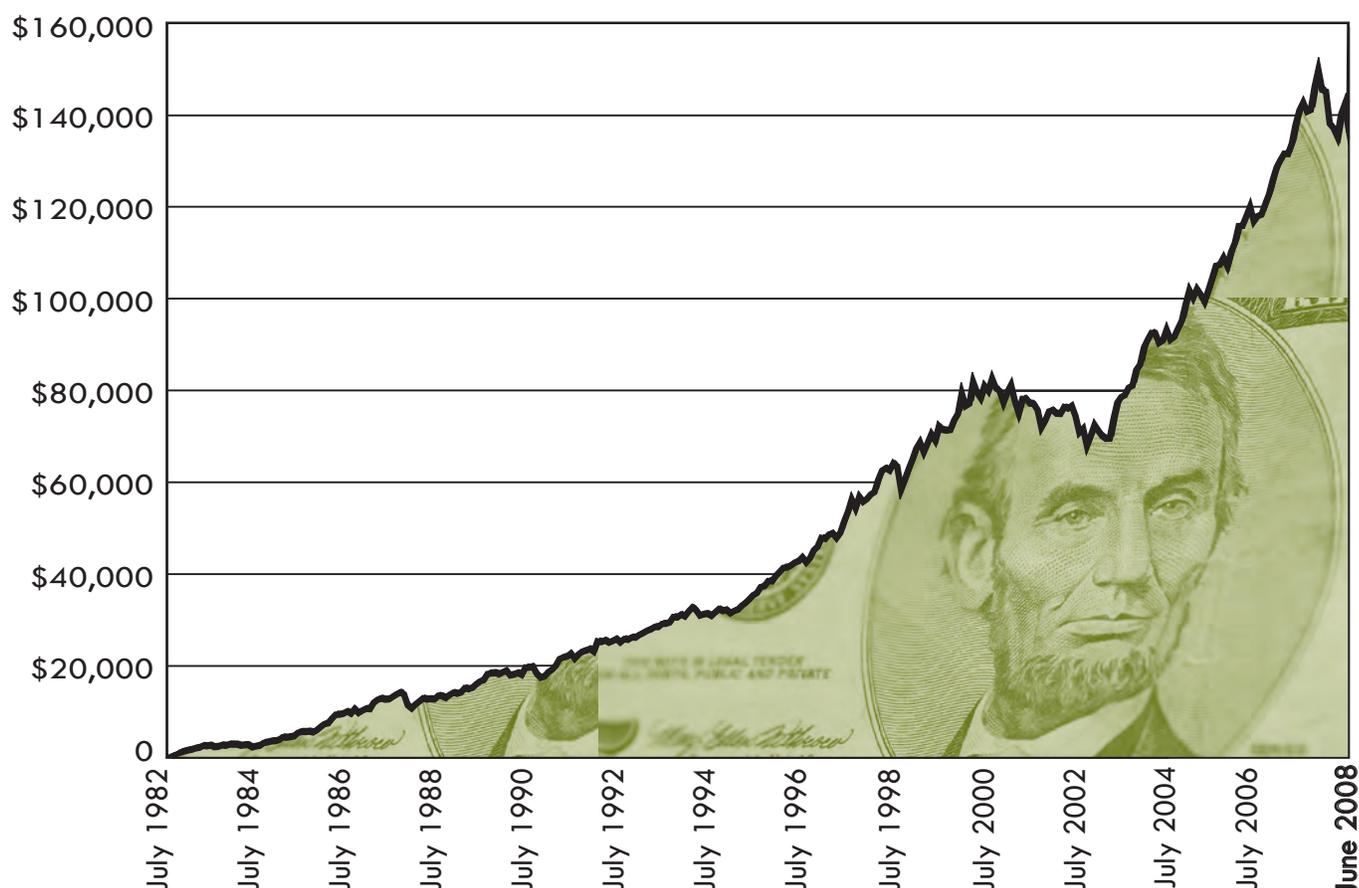
Securities Holdings for Years Ending June 30

Asset Type	2008	2007	2006	2005	2004
Bonds, Corporate Notes, and Government Obligations	22.7%	24.0%	27.9%	29.4%	28.2%
Equities - U.S.	27.5	33.0	33.6	35.8	40.9
Equities - International	21.5	22.6	19.8	17.7	16.7
Real Return	5.4	-	-	-	-
Short-Term Investments/Currency	3.4	3.6	4.2	4.1	3.3
Absolute Return	1.3	1.2	-	-	-
Private Equity	6.1	4.5	4.0	3.0	2.6
Real Estate Equity	12.1	11.1	10.5	10.0	8.3
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 26 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, 2008.

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 declined 15.1 percent on a net of fee basis, compared to the Russell 3000 Index loss of 12.7 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	(15.1%)	3.6%	7.9%	3.2%
Russell 3000 Index	(12.7)	4.7	8.4	3.5

At June 30, 2008, 33.2 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 FY08.

The top 10 domestic equity holdings at June 30, 2008, are listed below and represent 10.4 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, 2008

Firm	Market Value
Exxon Mobil Corp.	\$192,968,479
Microsoft Corp.	125,530,111
Chevron Corp.	124,225,850
Hewlett-Packard Co.	117,597,583
Apple, Inc.	105,733,169
General Electric Co.	104,156,391
Google, Inc.	101,212,141
Cisco Systems, Inc.	94,122,544
Wal-Mart Stores, Inc.	90,348,244
Gilead Sciences, Inc.	79,285,212
Total	<u><u>\$1,135,179,724</u></u>

Source: The Northern Trust Company

As of June 30, 2008, 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 (Large Cap)	
RhumbLine Advisors, L.P. (5/06)	\$827,192,353
Enhanced Index (Large Cap)	
Barclays Global Investors (6/05)	817,419,738
Pacific Investment Management Company, L.L.C. (8/91)	862,460,591
T. Rowe Price Associates, Inc. (6/05)	820,664,192
Pacific Investment Management Company, L.L.C. (1/08)	430,558,107
Large Cap Core	
Analytic Investors, L.L.C. (12/07)	490,760,126
J.P. Morgan Investment Management, Inc. (12/07)	489,771,610
Large Cap Value	
Dodge & Cox (4/00)	1,126,357,779
EARNEST Partners, L.L.C. (2/02)	182,378,089
Robeco Boston Partners Asset Management, L.P. (1/03)	652,831,072
Large Cap Growth	
T. Rowe Price Associates, Inc. (11/06)	709,188,984
Turner Investment Partners, Inc. (6/04)	1,027,246,791
Wellington Management Company, L.P. (11/07)	407,914,940
Index (Small/Mid Cap Core)	
Rhumbline Advisors, L.P. (5/07)	417,066,586
Small/Mid Cap Value	
LSV Asset Management (12/02)	616,297,406
State Street Global Advisors (6/06)	149,766,140
Small/Mid Cap Growth	
Copper Rock Capital Partners, L.L.C. (12/06)	156,158,186
Mazama Capital Management, Inc. (1/03)	307,705,115
Tygh Capital Management, Inc. (6/06)	462,576,933
Fred Alger Management, Inc. (12/07)	192,302,714
Small Cap Growth	
Batterymarch Financial Management, Inc. (11/04)	214,916,876
Emerald Advisors, Inc. (11/04)	237,277,276
Mazama Capital Management, Inc. (11/04)	173,360,720
Small Cap Value	
AQR Capital Management, L.L.C. (11/06)	249,367,043
Thompson, Siegel & Walmsley, Inc. (11/04)	313,458,205
Emerging Manager	
Denali Advisors, L.L.C. (4/08)*	47,670,608
Evercore Asset Management, L.L.C. (2/07)**	15,484,059
Piedmont Investment Advisors, L.L.C. (2/07)***	21,473,936
Transition Manager	
Barclays Global Investors (6/08)	329,233,602

* Style is large cap value.

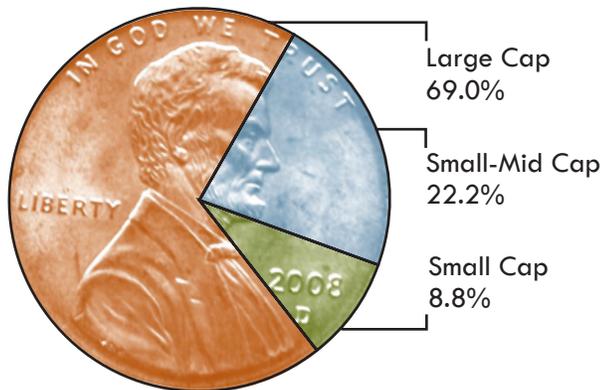
** Style is small cap value.

*** Style is enhanced index.

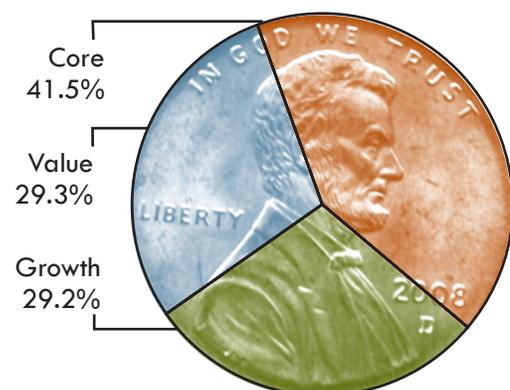
Discussion of U.S. Equity

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

Following four years of positive returns with modest volatility, the domestic equity market began a reversal in July 2007 and ended a tumultuous year down 12.7 percent (Russell 3000 index). The TRS domestic portfolio lagged the index by 2.4 percent for the year, losing 15.1 percent. Style allocation contributed to the underperformance as value stocks declined more than growth. This factor was exacerbated by TRS's manager positioning within these style mandates which were negatively impacted in the declining market while unprecedented market dynamics created a difficult environment for rational investors. We were also disappointed by the weak defensive posture of certain managers.

Implementation of the 2007 structure changes continued with the addition of five new managers. J.P. Morgan and Analytic Investors were hired to fill the new large cap short extension allocations (130/30), while Wellington and Fred Alger filled vacancies in the large cap growth and small/mid cap growth styles, respectively. Additionally, Denali Advisors was hired for a large cap value mandate in our emerging manager program.

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, 2008

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$48.9	\$73.0
Price/Earnings Ratio	15.7x	16.9x
Dividend Yield	1.6%	2.1%
Beta	1.1	1.0
5-Year EPS Growth	26.5%	19.9%
Price/Book Ratio	2.2x	2.4x

Source: The Northern Trust Company

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2008

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer Discretionary	11.9%	9.3%
Consumer Durables	6.1	9.3
Energy	12.6	15.1
Financial Services	13.4	14.4
Health Care	14.0	11.8
Industrials	12.0	11.8
Materials	4.4	4.5
Technology	20.2	16.5
Telecommunication Services	2.5	3.0
Utilities	2.9	4.3
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, 2008, the international equity asset class declined 7.7 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) loss of 6.2 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	(7.7%)	15.0%	18.8%	8.2%
Non-U.S. Equity Index	(6.2)	16.2	19.4	7.8

At June 30, 2008, 21.4 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, 2008. 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 10.0 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, 2008

Firm	Country	Market Value (USD)
BP	United Kingdom	\$119,598,875
GlaxoSmithKline	United Kingdom	109,198,307
Nestle	Switzerland	98,996,569
Novartis AG	Switzerland	87,937,813
Telefonica	Spain	78,055,057
Banco Santander	Spain	77,455,973
BG Group	United Kingdom	73,911,593
BHP Billiton PLC	United Kingdom	71,508,161
Vodafone Group	United Kingdom	69,028,522
Canon, Inc.	Japan	65,716,911
Total		<u>\$851,407,781</u>

Source: The Northern Trust Company

As of June 30, 2008, TRS employed the following international equity managers including their respective assets under management.

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

Manager	Assets Under Management (USD)
Active Core	
Brandes Investment Partners, L.P. (2/98)	\$1,179,021,772
Jarislowsky, Fraser Limited (8/05)	417,042,014
McKinley Capital Management, Inc. (8/05)	1,347,419,783
Mondrian Investment Partners Limited (4/93)	1,243,072,549
State Street Global Advisors (8/05)	377,217,951
Trilogy Global Advisors, L.L.C. (8/07)	436,406,402
Enhanced Index	
Quantitative Management Associates, L.L.C. (8/07)	641,458,629
State Street Global Advisors (8/07)	226,292,401
Small Cap	
American Century Global Investment Management, Inc. (6/08)	115,416,655
Dimensional Fund Advisors, L.P. (6/08)	183,994,655
State Street Global Advisors (8/07)	88,633,047
Passive Non-U.S.	
Barclays Global Advisors (5/07)	576,582,522
Emerging Markets	
Aberdeen Asset Management, Inc. (3/08)	351,064,759
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	999,024,625

Note: The list does not include managers terminated prior to June 30, 2008 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
Enhanced Passive Non-U.S.	11.5%	17.8%
Active Core	60.0	61.0
Small Cap	12.0	4.7
Emerging Markets	16.5	16.5
Total	100.0%	100.0%

International equity markets posted modest losses for the year ended June 30, 2008, falling 6.2 percent as measured by the MSCI All Country Ex-U.S. Free Index. The emerging markets sector, which are the developing economies in the international markets and represent a 19.8 percent weighting in the international index, was the only region to post positive returns, returning 4.9 percent. Within the emerging markets, the Latin American region was the biggest gainer, led by Brazil's rise of 53.9 percent. In the developed portion of the non-U.S. markets, Canada, which represents 7.4 percent in the international index, was the best-performing developed market for the year ended June 2008, advancing by 14.5 percent. Europe, the largest international equity region representing 50.0 percent of the MSCI ACWI Index dropped more compared to the broad market advance, depreciating by 10.8 percent. Ireland, with its heavy financial exposure was the worst-performing European country, dropping 36.2 percent.

The TRS international equity portfolio recorded negative returns for FY08 losing 7.7 percent, net of fees, underperforming its index by 1.5 percent. Even though the portfolio held an overweight position in the emerging markets, TRS managers have underweighted some of the more risky markets such as Russia and China, and overweighted the more developed emerging countries of Korea and Taiwan, which underperformed. The TRS portfolio also holds a considerable underweight exposure to Canada, which led all developed markets last year.

At the sector level, TRS was underexposed to basic materials and energy, sectors that have continued to advance beyond TRS managers' expectations. These industries are often considered much more cyclical in nature and do not possess the long-term quality sought by TRS international equity managers. TRS managers have moved assets into lower risk sectors such as telecom, health care, and consumer staples, which have not kept up with the cyclical sectors.

Portfolio Characteristics

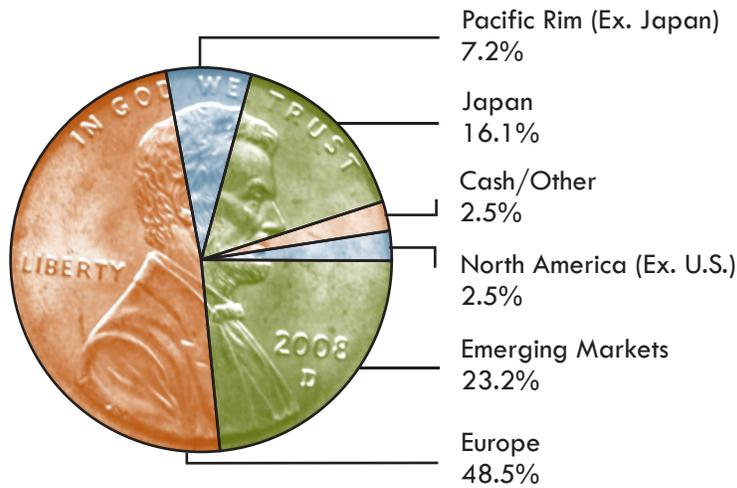
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	\$49.4	\$59.9
Price/Earnings Ratio	12.6x	12.8x
Dividend Yield	3.2%	3.3%
Price/Book Ratio	1.8x	1.9x

Source: The Northern Trust Company

Regional Allocation Comparison June 30, 2008 TRS International Equity Exposure



Global Fixed Income

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign 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.

Global fixed income is an important asset class 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, 2008, TRS's fixed income managers earned a 5.1 percent return, net of fees, compared to the 7.1 percent return of the benchmark, the Lehman Brothers U.S. Aggregate Index. For periods longer than one year, TRS utilized a blended index of U.S. and non-dollar targets.

One-, three-, five-, and 10-year comparisons to the relative benchmarks are noted below:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	5.1%	3.7%	3.7%	5.3%
TRS Fixed Income Index	7.1	4.1	3.9	5.5

As of June 30, 2008, TRS employed fixed income managers overseeing assets of \$6.6 billion, as identified in the Global Fixed Income Managers and Assets Under Management table. This table categorizes manager assignments by core plus, international, enhanced indexed, and long duration. 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 seek to offer enhanced returns while maintaining a similar risk profile to that of the index.

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

Core Plus

Dodge & Cox (11/03)	\$533,156,327
Dolan McEniry Capital Management, L.L.C. (5/06)	169,812,988
EARNEST Partners Limited, L.L.C. (2/02)	238,599,143
Goldman Sachs Asset Management, L.P. (5/06)	987,604,434
ING Investment Management Company (5/06)	779,677,438
Pacific Investment Management Company, L.L.C. (7/82)	1,370,221,786
Taplin, Canida & Habacht (3/04)	501,519,458

International

Franklin Advisors, Inc. (2/08)	382,435,011
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Enhanced Indexed

Lehman Brothers Asset Management, L.L.C. (2/06)	987,923,142
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Long Duration

Loomis Sayles & Company, L.P. (6/08)	529,537,693
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Note: This list does not include managers terminated prior to June 30, 2008 with residual assets in the account.

The following table lists the top 10 global fixed income securities held by TRS's managers as of June 30, 2008. These securities represent 11.4 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, 2008

Security/Position	Rate	Maturity Date	Market Value
U.S. Treasury Note	3.88%	5/15/2018	\$189,282,451
Federal National Mortgage Association TBA	5.50	7/01/2038	126,879,506
Federal National Mortgage Association TBA	5.00	7/01/2023	114,096,806
Federal National Mortgage Association TBA	5.00	1/15/2038	107,004,811
U.S. Treasury Note	3.50	5/31/2013	106,383,763
Federal Home Loan Mortgage Corporation Gold	5.50	7/01/2038	99,233,825
Federal National Mortgage Association	5.00	3/01/2036	89,024,673
Federal National Mortgage Association TBA	6.00	12/31/2040	79,308,934
U.S. Treasury Note	3.38	6/30/2013	58,422,797
Federal Home Loan Mortgage Corporation Gold	6.00	7/15/2034	55,785,330
Total			\$1,025,422,896

Source: The Northern Trust Company and TRS

Discussion of Global Fixed Income

At June 30, 2008, 17.2 percent of TRS's investment portfolio was assigned to global fixed income managers. During FY08, TRS reduced global fixed income towards the long-term target of 15.0 percent.

A flight to quality occurred during FY08 as treasuries and inflation-linked securities outperformed nearly every debt sector. Spreads in corporate bonds, mortgages, commercial mortgage-backed securities, and other mortgage-related debt issued widened significantly over the last 12 months. Most TRS managers were overweight to spread, or non-treasury, sectors that detracted from TRS's short-term global fixed income performance. Though FY08 performance was nearly 2.0 percent under the Lehman Aggregate, longer term performance remains in line with the investment grade aggregate index.

After easing interest rates by 2.25 percent during FY08, the Federal Reserve left the federal funds rate unchanged at its meeting in June 2008. With global liquidity remaining a significant concern, the Federal Reserve and Department of the Treasury continued to take action to “unfreeze” the credit markets. Going forward, the TRS global fixed income portfolio is positioned to take advantage of liquidity improvements and as corporate and mortgage spreads eventually decrease approaching historical averages.

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

Statistical Data Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/08	Lehman Brothers Aggregate Bond Index 6/30/08	TRS Fixed Income Portfolio 6/30/07	Lehman Brothers Aggregate Bond Index 6/30/07
Average Maturity	9.9 years	7.5 years	7.2 years	7.3 years
Effective Duration	4.7 years	4.7 years	4.2 years	4.9 years
Average Coupon	5.2%	5.4%	4.7%	5.4%
Average Quality Rating	Aa1	Aa2	Aa2	Aa2
Current Yield	5.3%	5.3%	5.0%	5.5%

Source: Lehman Brothers and TRS

Global Fixed Income Managers Sector Weighting

TRS Fixed Income Portfolio	2008	2007
U.S. Treasury	9.9%	5.4%
Government Bonds — Foreign	4.0	0.7
U.S. Federal Agency	5.6	10.1
Agency Bonds — Foreign	0.7	0.2
Asset Backed Securities — U.S. and Foreign	3.1	3.2
U.S. Mortgage-Backed Securities	33.5	36.5
Commercial Mortgage Backed and Collateralized Mortgages	12.4	12.4
U.S. Corporate or Credit Securities	26.8	18.5
Corporate or Credit Securities — Foreign	4.2	2.2
Inflation-Linked Securities — U.S. and Foreign	1.0	0.9
Municipal and Province	0.4	0.1
Preferred Stock	0.3	0.3
Bank Loans — U.S.	0.2	0.0
U.S. Corporate Convertibles — U.S. and Foreign	0.3	0.0
Net Short-term Investments	(2.4)	9.5
Total	100.0%	100.0%
Total U.S. and Non-U.S. Futures Exposure	22.9%	17.2%
Total Foreign Currency Exposure	11.4	2.7
Total Swap Exposure — Ex-Swaptions	12.6	7.6
Total High Yield Exposure	4.7	2.6
Total Emerging Markets Debt Exposure	4.2	1.0

Source: The Northern Trust Company and TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2008	2007
Agency	5.4%	12.2%
Treasury	7.9	5.1
Aaa	53.0	58.7
Aa1 through Aa3	8.8	7.2
A1 through A3	9.8	4.9
Baa1 through Baa3	9.0	6.0
Ba1 through Ba3	1.7	2.9
B1 through B3	1.4	1.4
Other*	3.0	1.6
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 is a 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 asset classes.

The objective of the real return asset class is to exceed the Consumer Price Index by 5.0 percent. Real return strategies are less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund.

For the year ended June 30, 2008, TRS's real return investment managers earned a 20.5 percent return, net of fees, compared to the 10.3 percent return of the benchmark. FY08 was the first full year of implementation for the real return asset class; therefore, performance information is only available for the one-year period.

At June 30, 2008, 8.0 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked, global macroeconomic and broad commodities strategies during FY08. As of June 30, 2008, TRS employed the following managers and or funds including their respective assets under management.

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

Global Inflation-Linked Bonds

New Century Advisors, L.L.C. (2/08)	\$25,426,104
Pacific Investment Management Company, L.L.C. (5/07)	449,842,877
Western Asset Management Company (2/05)	464,375,809

Global Macroeconomic Strategies

AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	233,925,187
Bridgewater All Weather Portfolio Offshore Limited (7/07)	584,719,500
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	647,279,472

Commodities

Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser Gresham Investment Management Company, L.L.C. (3/08)	220,963,902
PIMCO Commodity Real Return Fund, L.L.C. (3/08)	207,579,629
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	224,268,200

Discussion of Real Return

In FY08, TRS's \$3.1 billion real return portfolio provided strong performance results. With the commodities markets continuing to rally during the year fueling headlines and core inflation, combined with the continued weakness of the U.S. dollar, the real return portfolio generated a one-year return of 20.5 percent, net of fees. The following chart provides a breakdown of TRS's diversified target allocation relative to the actual allocation as of June 30, 2008.

Real Return Target and Actual Allocation as of June 30, 2008

Real Return Subclasses	Target	Actual
Global Inflation-linked Bonds	20.0%	29.9%
Global Macroeconomic Strategies	70.0	48.8
Commodities	10.0	21.3
Total	100.0%	100.0%

TRS moved \$1.7 billion into real return mandates in FY08, primarily from domestic stocks, further reducing TRS's volatility and overall risk exposure. During FY09, TRS will complete its long-term target 10.0 percent allocation to the real return asset class, adding an additional global macroeconomic strategy and slightly reducing overall commodity exposure.

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, 2008, private equity outperformed the benchmark by 13.3 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 10.7 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:

	FY08	3-Year	5-Year	10-Year
TRS, net of fees	3.3%	18.3%	17.0%	16.7%
Russell 3000 Index + 3.0%	(10.0)	7.9	11.7	6.0

At June 30, 2008, 6.3 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, 2008.

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

Buyout

Advent International Global VI, L.P. (2/08)*	\$0
Apollo Investment Fund V, L.P. (5/01)	117,469,704
Apollo Investment Fund VI, L.P. (8/05)	117,937,736
Apollo Investment Fund VII, L.P. (8/07)	23,294,142
Banc Fund VI, L.P. (12/02)	36,450,928
Banc Fund VII, L.P. (5/05)	23,245,337
Carlyle Partners IV, L.P. (12/04)	103,489,773
Carlyle Partners V, L.P. (5/07)	40,240,002
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	83,596,895
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	85,119,904
Castle Harlan Partners IV, L.P. (5/03)	27,431,097
Code Hennessy & Simmons V, L.P. (2/05)	16,217,486
DLJ Merchant Banking Partners II, L.P. (3/97)	14,195,650
DLJ Merchant Banking Partners III, L.P. (9/00)	106,538,278
Elevation Partners, L.P. (2/05)	10,840,737
Energy Capital Partners I, L.P. (2/06)	17,753,463
Evercore Capital Partners II, L.P. (4/03)	40,382,177
Glencoe Capital Partners III, L.P. (1/04)	11,684,333
Glencoe Capital Institutional Partners III, L.P. (6/04)	5,204,169
Green Equity Investors V, L.P. (2/07)	13,594,154
GTCR Fund VII/VIIA, L.P. (3/00)	13,009,299
GTCR Fund VIII, L.P. (7/03)	39,119,177
Hispania Private Equity, L.P. (5/04)	110,106
ICV Partners II, L.P. (12/05)	2,486,404
J.C. Flowers II, L.P. (2/07)	32,836,448
KH Growth Equity Fund, L.P. (2/08)	538,159
KKR 1996 Fund, L.P. (5/97)	11,028,935
Lehman Brothers Merchant Banking III, L.P. (2/05)	39,401,690
Lehman Brothers Merchant Banking IV, L.P. (2/07)	1,482,355
Madison Dearborn V, L.P. (7/06)	82,446,852
Mesirow Capital Partners VII, L.P. (6/97)	1,251,341
New Mountain Capital Partners III, L.P. (5/07)	10,689,184
PAI Europe V, L.P. (2/08)	57,429
Pine Brook Capital Partners, L.P. (12/07)	7,241,373
Providence Equity Partners (3/07)	49,926,063
Reliant Equity Partners, L.P. (6/04)	520,387
Riverstone/Carlyle Global Energy and Power Fund IV, L.P. (12/07)	4,502,260
Silver Lake Partners III, L.P. (2/07)	10,889,358
TCW/Latin America Private Equity Partners, L.P. (5/97)	122,692
Technology Crossover Ventures VII, L.P. (10/07)*	0
Thayer Equity Investors V, L.P. (5/03)	36,979,174
TPG Partners IV, L.P. (12/03)	41,969,658
TPG Partners VI, L.P. (4/08)	3,900,757
Trivest Fund II, Ltd. (6/96)	3,411,499
Vista Equity Partners Fund III, L.P. (10/07)	19,978,253
VS&A Communications Partners II, L.P. (9/95)	3,132,055
VSS Communication Partners IV, L.P. (2/05)	37,036,999
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	49,401,746

*Partnership was not funded at June 30, 2008; date reflects the TRS Board of Trustees approval.

Continued

Windpoint Partners VI, L.P. (5/05)	\$16,780,334
WPG Corporate Development Associates V, L.P. (11/97)	3,585,525
Distressed Debt	
Avenue Europe Special Situations Fund, L.P. (5/08)	7,734,711
Avenue Special Situations Fund V, L.P. (8/07)	44,480,119
Carlyle Strategic Partners, L.P. (2/04)	23,311,405
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	48,327,671
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	41,829,677
OCM Opportunities Fund V, L.P. (6/04)	9,384,233
OCM Opportunities Fund VIIb, L.P. (12/07)	7,203,305
Subordinated Debt	
Merit Mezzanine Fund IV, L.P. (2/04)	39,817,044
Prism Mezzanine Fund, L.P. (5/04)	7,400,227
SW Pelham Fund II, L.P. (9/03)	12,361,643
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	35,214,877
William Blair Mezzanine Capital Fund II, L.P. (5/97)	9,163,123
William Blair Mezzanine Capital Fund III, L.P. (1/00)	11,530,813
Venture Capital	
21st Century Communications T-E Partners, L.P. (2/95)	336,041
Apex Investment Fund III, L.P. (6/96)	2,990,505
Apex Investment Fund V, L.P. (8/03)	19,977,480
Carlyle Venture Partners II, L.P. (10/02)	109,509,501
Carlyle Venture Partners III, L.P. (6/07)	15,003,536
Edgewater Growth Capital Partners, L.P. (11/03)	18,215,912
Edgewater Growth Capital Partners II, L.P. (2/05)	14,828,786
Evergreen Partners IV, L.P. (12/02)	17,213,103
Evergreen Partners V, L.P. (6/07)	6,739,563
Granite Ventures II, L.P. (5/05)	4,649,695
HealthPoint Partners, L.P. (6/04)	39,887,669
Hopewell Ventures, L.P. (6/04)	1,866,682
Illinois Emerging Technologies Fund, L.P. (6/04)	1,713,504
Longitude Venture Partners, L.P. (2/08)	877,227
SCP Private Equity Partners, L.P. (5/97)	9,546,766
SCP Private Equity Partners II, L.P. (6/00)	67,232,680
Shasta Ventures, L.P. (12/04)	15,613,505
VantagePoint Venture Partners IV, L.P. (6/00)	66,054,653
VantagePoint Venture Partners 2006, L.P. (12/06)	11,861,530
Warburg Pincus Private Equity, L.P. (9/00)	87,434,336
Warburg Pincus Private Equity IX, L.P. (8/05)	107,331,008
Warburg Pincus Private Equity X, L.P. (8/07)	44,173,852
WPG Enterprise Fund II, L.P. (8/94)	10,655,633
WPG Enterprise Fund III, L.P. (3/97)	9,230,653

Discussion of Private Equity

In FY08, 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 2009. 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, 2008.

Private Equity Target and Actual Allocation as of June 30, 2008

Subclasses	Target	Actual
Buyout	60-70%	59.0%
Venture Capital	10-20	28.4
Special Situations/Distressed Debt/Subordinated Debt	5-15	12.6
Total		100.0%

Source: TRS and The Northern Trust Company

TRS made commitments to 14 private equity funds totaling \$1.4 billion during the year. Three of those commitments were to funds that will invest primarily in European opportunities, which should serve to further diversify the portfolio. 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 to protect assets, even in the most difficult investment environments for traditional stocks and bonds.

Investments in this asset class are 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 strategy are benchmarked a relative risk-free index of 90-Day Treasury Bills + 4.0 percent.

For the year ended June 30, 2008, TRS's absolute return investment managers earned a 0.9 percent return, net of fees, compared to the 7.8 percent return of the benchmark. FY08 was the first full year of implementation for the absolute return asset class; therefore, performance information is only available for the one-year period.

At June 30, 2008, 1.3 percent of TRS's investment portfolio was assigned to absolute return managers. As of June 30, 2008, 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

Grosvenor Monarch Fund, L.L.C. (6/07)	\$248,524,886
K2 Bluegill Fund, L.L.C. (6/07)	255,699,208

Discussion of Absolute Return

The first year of TRS's Absolute Return Program was in FY08. While the returns were well below the official benchmark of 90-Day Treasury Bills + 4%, the portfolio outperformed its peer group benchmark and managed to preserve value in a sharply negative equity market. Going forward, TRS plans to continue implementation of this asset class toward its target 2.5 percent allocation.

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.

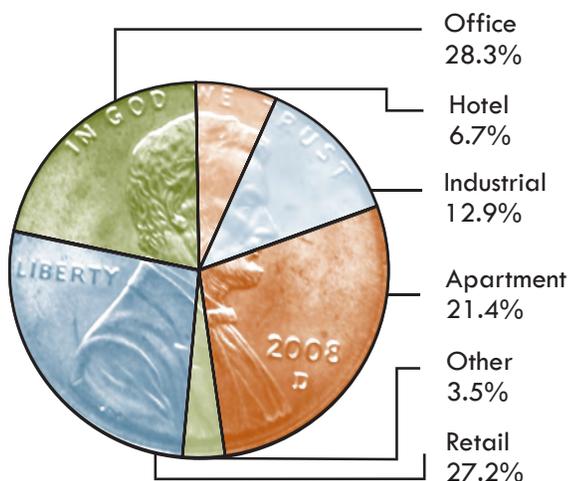
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2008, TRS held \$4.8 billion in real estate assets, or 12.5 percent of the total fund portfolio. For the year, TRS's real estate investments returned 4.5 percent. Real estate performance and benchmark comparison are noted in the following table:

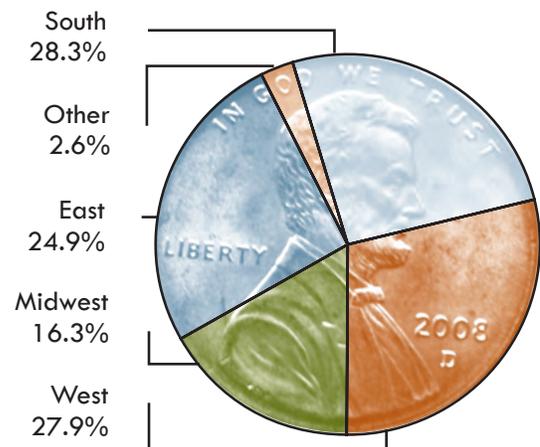
	FY08	3-Year	5-Year	10-Year
TRS, net of fees	4.5%	15.9%	16.1%	12.3%
Real Estate Property Index	9.2	15.0	14.7	11.9

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, 2008



Geographic Diversification of Real Estate Holdings as of June 30, 2008



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, 2008, 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)	\$1,424,919,208
Cozad/Westchester Asset Management, Inc. (5/91)	26,100,818

Continued

Commonwealth Realty Advisors, Inc. I (9/91)	\$951,095,502
Commonwealth Realty Advisors, Inc. II (11/92)	181,407,584
Koll Bren Schreiber Realty Advisors I (6/93)	459,480,815
Koll Bren Schreiber Realty Advisors II (5/96)	12,128
LPC Realty Advisors I, Ltd. (7/92)	380,540,363
LPC Realty Advisors Core, Ltd. (4/07)	46,209,368
Stone-Levy, L.L.C. (4/95)	213,352,787
Closed End Accounts	
Beacon Capital Partners V, L.P. (8/07)	49,479,270
Blackstone Real Estate Partners VI, L.P. (9/07)	23,274,703
Capri/Capital Apartment Fund III (3/90)	152,482,289
Capri Select Income Fund II, L.L.C. (12/05)	19,968,022
Carlyle Realty Partners IV (6/05)	54,729,667
DLJ Real Estate Capital Partners, Inc. (3/96)*	872,090
JBC Opportunity Fund II, L.P. (7/03)	24,737,785
JER Real Estate Partners III, L.P. (1/05)	40,217,542
RLJ Lodging Fund II, L.P. (9/06)	44,363,595
Thayer Hotel IV, L.P. (5/04)	13,875,617
Walton Street Capital, L.L.C. (7/03)	97,265,036
Open End Accounts	
Hines-Sumisei U.S. Core Office Fund, L.P. (12/05)	234,654,256
Lion Industrial Trust (4/05)	259,050,335
International Real Estate Accounts	
Carlyle Europe Real Estate Partners, L.P. (6/03)	55,588,767
Carlyle Europe Real Estate Partners III, L.P. (9/07)	15,329,990
CB Richard Ellis Strategic Partners Europe III (4/07)	4,864,107
CB Richard Ellis Strategic Partners U.K. III (5/07)	8,974,813
LaSalle Asia Opportunity Fund III, L.P. (11/07)	2,891,873
Macquarie Global Partners Asia Fund III, L.P. (12/07)	12,142,058

* 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 long-term target of 14 percent. In FY08, the TRS real estate portfolio grew from 11.3 percent of the total investment portfolio to 12.5 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 FY09. Finally, TRS began further diversification of its real estate portfolio through international investments. Through the selection of highly qualified international fund sponsors, TRS expects to further enhance the return expectations of the portfolio.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2008 and 2007. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2008, TRS recaptured \$1.3 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY08, TRS used \$1.7 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY08 Commission	FY07 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$4,331,740	\$1,400,230
Goldman Sachs & Co. (Worldwide)	3,071,886	1,716,043
Morgan Stanley & Co., Inc. and all Subsidiaries (Worldwide)	2,253,082	690,317
Credit Suisse (Worldwide)	1,321,142	828,315
J.P. Morgan Securities, Inc. (Worldwide)	1,297,380	716,283
Citigroup Inc., and all Subsidiaries (Worldwide)	1,062,492	853,951
UBS Warburg Securities and all Subsidiaries (Worldwide)	863,445	1,051,721
Deutsche Bank & Securities (Worldwide)	842,254	402,561
Lehman Brothers, Inc. (Worldwide)	695,927	941,406
Liquidnet, Inc.	661,182	483,064
Bank of New York Mellon (Worldwide)	659,766	907,517
Investment Technology Group, Inc. (Worldwide)	651,209	564,341
Bear Stearns Securities Corp. (Worldwide)	591,339	596,282
Jefferies & Company	494,142	302,342
Banc of America Securities	382,367	267,801
Credit Lyonnais Securities (Worldwide)	364,804	134,710
Ivy Securities, Inc.	354,734	261,772
Macquarie Bank & Securities, Ltd. (Worldwide)	344,856	259,331
Societe Generale (Worldwide)	331,238	368,858
Instinet, L.L.C. (Worldwide)	308,801	130,727
Union Bank of Switzerland (New York)	299,806	63,958
State Street Brokerage Services	259,487	543,543
ABN AMRO Securities (Worldwide)	235,407	117,399
Knight Securities, L.P.	204,425	145,352
Piper Jaffray, Inc.	184,361	131,757
Thomas Weisel Partners, L.L.C.	183,514	134,272
Pulse Trading, L.L.C.	179,404	170,655
SG Cowen & Company (Worldwide)	176,996	168,377
PCS Securities, Inc.	167,843	14,690
Raymond James (Worldwide)	146,250	73,771
Kepler Equities (Worldwide)	139,209	49,017
Chevreaux De Virieu (Worldwide)	136,035	56,111
Pacific Crest Securities, Inc. (Worldwide)	131,740	93,723
Magna Securities Corp.	130,186	124,293
Cantor Fitzgerald	127,565	104,298
Loop Capital Markets, L.L.C.	127,384	109,844
Guzman & Company	124,622	136,852
M. Ramsey King Securities	121,544	96,911
Dresdner Kleinwort Wasserstein (Worldwide)	121,424	75,033
B-Trade Services, L.L.C.	121,001	315,430
Nomura International (Worldwide)	119,869	121,151
Pipeline Trading Systems, L.L.C.	119,156	96,542
Williams Capital Group, L.P.	117,918	103,205
Hyundai Securities Company, Ltd.	117,394	36,421
Melvin Securities, Inc.	117,332	169,929
Cabrera Capital Markets, Inc.	117,261	75,172
Sanford Bernstein (Worldwide)	115,749	21,814
Cazenove & Co (Worldwide)	113,591	10,877
CL King & Associates, Inc.	113,092	128,165
Weeden & Co.	106,857	92,150
All Others (FY08, 252 Brokers)	4,602,416	4,757,703
Totals	<u>\$29,962,624</u>	<u>\$21,215,987</u>

Source: The Northern Trust Company and TRS

External Manager Fee Payments

For the year ended June 30, 2008, fee payments to external investment managers totaled \$171.2 million, an increase of 23.7 percent from the year ended June 30, 2007. The increase is attributable to TRS's increased allocation to the private equity, real return, and absolute return asset classes.

Schedule of Investment Manager Fees

Investment Manager/Account	FY08	FY07
21st Century Communication T-E Partners, L.P.	\$8,504	\$8,622
Aberdeen Asset Management, Inc.	649,569	0
Analytic Investors, L.L.C.	1,509,108	0
American Century Global Investment Management, Inc.	40,156	0
Apex Investment Fund III, L.P.	46,088	111,319
Apex Investment Fund V, L.P.	455,624	450,000
Apollo Investment Fund V, L.P.	0	0
Apollo Investment Fund VI, L.P.	0	728,254
Apollo Investment Fund VII, L.P.	1,888,954	0
AQR Capital Management, L.L.C.	2,031,230	1,162,623
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	1,423,469	0
Avenue Europe Special Situations Fund V, L.P.	57,296	0
Avenue Special Situations Fund V, L.P.	1,734,246	0
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	741,045	512,595
Barclays Global Investors	1,762,560	1,896,168
Batterymarch Financial Management, Inc.	1,531,961	1,594,576
Beacon Capital Strategic Partners V, L.P.	0	0
BlackRock, Inc.	73,792	857,265
Blackstone Real Estate Partners VI, L.P.	541,667	0
Brandes Investment Partners, L.P.	4,842,701	4,608,014
Bridgewater All Weather Portfolio Offshore Limited	1,812,668	0
Byram Capital Management, L.L.C.	0	1,040,534
Capri/Capital Advisors, L.L.C.	4,447,741	4,272,463
Capri Capital Apartment Fund III	1,496,984	1,426,565
Capri Select Income II, L.L.C.	189,906	250,000
Carlyle Europe Real Estate Partners, L.P.	232,321	278,683
Carlyle Europe Real Estate Partners III, L.P.	1,267,752	0
Carlyle Group Partners IV, L.P.	131,472	573,479
Carlyle Group Partners V, L.P.	1,828,687	0
Carlyle Group/Realty Partners IV, L.P.	813,221	688,354
Carlyle Group/Riverstone Global Energy Fund II, L.P.	819,616	724,023
Carlyle Group/Riverstone Global Energy Fund III, L.P.	895,307	1,267,627
Carlyle Group/Strategic Partners, L.P.	371,464	350,000
Carlyle Ventures Capital II, L.P.	2,221,839	1,906,673
Carlyle Ventures Capital III, L.P.	1,000,000	1,082,191
Castle Harlan Partners IV, L.P.	65,220	211,227
CB Richards Ellis Strategic Partners Europe Fund III	725,942	216,003
CB Richards Strategic Partners Ellis UK Fund III	632,783	153,814
Code Hennessy & Simmons V, L.P.	0	0
Commonwealth Realty Advisors, Inc.	4,066,582	3,944,398
Copper Rock Capital Partners, L.L.C.	1,126,051	254,563
Cozad/Westchester Asset Management, Inc.	2,157,467	2,129,118
Delaware Investment Advisers	0	1,886,789
Denali Advisors, L.L.C.	45,689	0
Dimensional Fund Advisors, L.P.	60,396	0
DLJ Merchant Banking Partners II, L.P.	158,446	218,046
DLJ Merchant Banking Partners III, L.P.	374,809	305,266

Continued

Investment Manager/Account	FY08	FY07
DLJ Real Estate Capital Partners, Inc.	\$0	\$55,750
Dodge & Cox	3,981,071	4,891,882
Dolan McEniry Capital Management, L.L.C.	92,091	78,292
EARNEST Partners, L.L.C.	684,796	907,699
Edgewater Growth Capital Partners, L.P.	242,073	0
Edgewater Growth Capital Partners II, L.P.	95,551	0
Elevation Partners, L.P.	285,505	291,531
Emerald Advisers, Inc.	1,576,072	1,612,484
Energy Capital Partners I, L.P.	530,077	482,849
Epoch Investment Partners, Inc.	190,693	0
Evercore Asset Management, L.L.C.	176,345	79,683
Evercore Capital Partners II, L.P.	641,564	682,670
Evergreen Partners IV, L.P.	542,785	615,864
Evergreen Partners V, L.P.	624,999	655,907
Franklin Advisers, Inc.	390,179	0
Fred Alger Management, Inc.	642,338	0
Glencoe Capital Partners III, L.P.	473,338	373,422
Goldman Sachs Asset Management, L.P.	1,429,236	1,304,252
Granite Ventures II, L.P.	470,235	378,474
Grantham, Mayo, Van Otterloo & Co., L.L.C.	10,713,143	8,801,051
Great Lakes Advisors, Inc.	0	38,840
Green Equity Investors V, L.P.	396,419	0
Grosvenor Capital Management, L.L.C.	1,874,106	0
GTCR Fund VII/VIIA, L.P.	704,205	359,034
GTCR Fund VIII, L.P.	0	0
Harris Associates, L.P.	0	2,425,272
HealthPoint Partners, L.P.	566,528	261,633
Hines-Sumisei U.S. Core Office Fund, L.P.	706,359	336,757
Hispania Private Equity, L.P.	289,269	310,925
Holland Capital Management, L.P.	0	536,453
Hopewell Ventures, L.P.	538,092	534,750
ICV Partners II, L.P.	265,013	260,776
Illinois Emerging Technologies Fund, L.P.	32,000	36,000
ING Investment Management Company	1,131,825	1,030,781
INVESCO Global Asset Management (N.A.), Inc.	0	2,702,958
Jarislowsky, Fraser Limited	1,032,774	986,720
JBC Opportunity Fund II, L.P.	164,169	953,496
J.C. Flowers & Co., L.L.C.	206,977	527,537
JER Real Estate Partners III, L.P.	957,567	894,099
JP Morgan Investment Management, Inc.	29,384	0
JP Morgan Management Associates, L.L.C.	2,089,885	0
K2 Advisors, L.L.C.	2,149,630	0
KH Growth Equity Fund, L.P.	405,833	0
KKR 1996 Fund, L.P.	63,647	90,474
Koll Bren Schreiber Realty Advisors	4,667,168	6,455,559
LaSalle Asia Opportunity Fund III, L.P.	1,135,796	0
Lehman Brothers Asset Management, L.L.C.	544,200	386,375
Lehman Brothers Merchant Banking Partners III, L.P.	292,010	674,590
Lehman Brothers Merchant Banking Partners IV, L.P.	813,549	0
Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser Gresham Investment Management Company, L.L.C.	225,854	0
Lion Industrial Trust	2,078,952	1,318,769
Longitude Ventures Partners, L.P.	483,333	0
Loomis Sayles & Company, L.P.	31,936	0

Continued

Investment Manager/Account	FY08	FY07
LPC Realty Advisors I, Ltd.	\$2,860,125	\$6,536,021
LSV Asset Management	3,565,897	3,942,090
Macquarie Global Properties Asia Fund III, L.P.	1,300,506	0
Madison Dearborn Partners, L.L.C.	641,643	1,112,044
MatlinPatterson Global Opportunities Fund II, L.P.	536,745	1,009,340
MatlinPatterson Global Opportunities Fund III, L.P.	1,435,398	312,409
Mazama Capital Management, Inc.	3,421,775	3,110,594
McKinley Capital Management, Inc.	5,957,131	2,994,981
Merit Mezzanine Fund IV, L.P.	836,371	865,956
Mesirow Capital Partners VII, L.P.	0	0
Mondrian Investment Partners Limited	2,990,156	2,910,449
NCM Capital Advisers, Inc.	0	246,763
New Century Advisors, L.L.C.	25,242	0
New Mountain Investments III, L.P.	1,498,494	0
OCM Opportunities Fund V, L.P.	287,586	311,997
OCM Opportunities Fund VIII, L.P.	261,193	0
Pacific Investment Management Company, L.L.C.	7,258,708	2,063,579
PAI Europe V, L.P.	197,501	0
Payden & Rygel	0	475,559
Penman Private Equity & Mezzanine Fund, L.P.	70,304	0
Piedmont Investment Advisors, L.L.C.	47,362	3,289
PIMCO Commodity Real Return Fund, L.L.C.	0	0
Pine Brook Capital Partners, L.P.	382,248	0
Prism Mezzanine Fund, L.P.	651,616	639,962
Providence Equity Partners VI, L.P.	545,059	320,146
Pyramis Global Advisors	0	2,618,206
Quantitative Management Associates, L.L.C.	1,654,000	0
Reliant Equity Partners, L.P.	127,984	160,639
RhumbLine Advisers, L.P.	134,684	112,747
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	786,997	0
RLJ Lodging Fund II, L.P.	617,666	722,603
Robeco Boston Partners Asset Management, L.P.	1,387,490	1,494,198
Schroder Commodity Offshore Portfolio, L.P.	590,894	0
SCP Private Equity Partners, L.P.	0	136,594
SCP Private Equity Partners II, L.P.	1,130,714	1,137,320
Shasta Ventures, L.P.	0	0
Silver Lake Partners III, L.P.	1,094,025	0
State Street Global Advisors	608,387	475,527
Stone-Levy, L.L.C.	1,240,078	1,597,208
SW Pelham Fund II, L.P.	304,411	355,051
T. Rowe Price Associates, Inc.	5,277,422	4,336,108
Taplin, Canida & Habacht	664,903	604,745
TCW/Latin American Private Equity Partners, L.P.	0	0
Thayer Equity Investors V, L.P.	558,760	500,202
Thayer Hotel IV, L.P.	161,270	328,806
The Northern Trust Company (Custody)	550,000	550,000
Thompson, Siegel & Walmsley, Inc.	2,092,311	1,844,131
TPG Partners IV, L.P.	0	50,481
TPG Partners VI, L.P.	610,324	0
Trilogy Global Advisors, L.L.C.	1,397,618	0
Trivest Fund II, Ltd.	0	(12,994)
Turner Investment Partners, Inc.	3,254,578	3,267,811
Tygh Capital Management, Inc.	2,728,410	2,437,786
VantagePoint Venture Partners IV, L.P.	0	0
Vista Equity Partners III, L.P.	709,971	0

Continued

Investment Manager/Account	FY08	FY07
Voyageur Asset Management, Inc.	\$0	\$1,364,685
VS&A Communications Partners II, L.P.	0	0
VSS Communications Partners IV, L.P.	790,962	708,379
Walton Street Capital, L.L.C.	1,078,271	1,314,459
Warburg Pincus International Partners, L.P.	0	0
Warburg Pincus Private Equity IX, L.P.	1,161,410	2,182,692
Warburg Pincus Private Equity X, L.P.	2,505,641	0
Weiss, Peck & Greer Investments/Robeco USA	0	490,014
Wellington Management Company	1,028,390	0
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C.	4,079,718	0
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	352,695	327,622
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	721,191	755,275
Western Asset Management Company	1,458,159	2,102,306
William Blair Mezzanine Capital Fund II, L.P.	97,357	122,623
William Blair Mezzanine Capital Fund III, L.P.	158,490	252,432
Wind Point Partners VI, L.P.	44,125	305,887
WPG Corporate Development Associates V, L.P.	70,682	107,973
WPG Enterprise Fund II, L.P.	109,765	120,218
WPG Enterprise Fund III, L.P.	196,857	229,914
Total fees paid by TRS	<u>\$171,248,449</u>	<u>\$138,401,562</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 FY08 Net Securities Lending Income	\$34,437,708
Total Northern Trust (6/30/08) Collateral Market Value	4,677,593,403
Total Market Value of Securities on Loan at Northern Trust (6/30/08)	4,518,174,602
Total Collateralized Percentage	104%

Source: The Northern Trust Company