

TRS Springfield office building, 1979 - present



# INVESTMENTS

# Introduction

The TRS investment portfolio declined 22.3 percent, gross of fees, for the fiscal year ending June 30, 2009 as the United States and global financial markets suffered one of their worst years in history. The loss was a continuation and acceleration of the modest loss of 4.5 percent experienced in FY08, with total fund assets declining from \$39.2 billion to \$29.0 billion at the end of the fiscal year. Fears of a collapse in the global financial system were evidenced by the fall of Lehman Brothers in September 2008 and severe distress among other large financial institutions. Credit market turmoil continued through the fiscal year, leading to substantial declines in the global equity markets with U.S. and international stocks falling 27.3 percent and 31.9 percent, respectively. Following unprecedented levels of federal stimulus, the global markets did manage to stabilize late in the year with the stock indices posting a strong rally from March through the end of the fiscal year.

Total TRS investments decreased by approximately \$10.2 billion during the year ended June 30, 2009. This represents the second year of losses 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, State Street Bank and Trust 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 April 1, 2009 through June 30, 2009. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2009. Additionally, State Street Bank and Trust calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS’s previous custodian, Northern Trust Company provided relevant fund reports for the period July 1, 2008 through March 31, 2009. TRS staff, in collaboration with the staff of its custodians, prepared the Investments section.

A complete listing of investment holdings is available on request.

## Summary Data June 30, 2009

<b>Total Fund Market Value</b>	<b>\$29.0 billion</b>
1-Year Return (net of fees)	(22.7%)
5-Year Return (net of fees)	1.7%
10-Year Return (net of fees)	3.1%
Percent Externally Managed	100.0%
Number of External Managers	120
Custodian	The Northern Trust Company (July 1, 2008 through March 31, 2009) State Street Bank and Trust (beginning April 1, 2009)
General Consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 35th out of the top 1,000 U.S. pension funds/plan sponsors in the January 26, 2009, issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2008.

## Fund Performance vs. Benchmarks and Market Values

As of June 30, 2009, TRS's total investments at market value totaled \$29.0 billion, a decrease of \$10.2 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 22.3 percent, gross of fees, and 22.7 percent, net of fees, for the one-year period ending June 30, 2009. 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 FY09 lagged the policy index decline by 4.1 percent for the year ended June 30, 2009. 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 6/30/09		
	2009	2008	2007	2006	2005	3 Years	5 Years	10 Years
<b>TRS Total Fund</b>	<b>(22.7%)</b>	<b>(5.0%)</b>	<b>19.2%</b>	<b>11.8%</b>	<b>10.8%</b>	<b>(4.3%)</b>	<b>1.7%</b>	<b>3.1%</b>
TRS Weighted Policy Index	(18.6)	(4.1)	17.9	11.3	10.7	(2.7)	2.6	3.0
CPI (Inflation)	(1.4)	5.0	2.7	4.3	2.5	2.1	2.6	2.6
<b>TRS Equity - U.S.</b>	<b>(27.3)</b>	<b>(15.1)</b>	<b>19.4</b>	<b>9.6</b>	<b>8.1</b>	<b>(9.7)</b>	<b>(2.7)</b>	<b>(1.6)</b>
Russell 3000 Index	(26.6)	(12.7)	20.1	9.6	8.1	(8.4)	(1.8)	(1.5)
<b>TRS Fixed Income</b>	<b>4.9</b>	<b>5.1</b>	<b>5.9</b>	<b>0.1</b>	<b>6.6</b>	<b>5.3</b>	<b>4.5</b>	<b>5.4</b>
TRS Fixed Income Index	6.1	7.1	6.1	(0.7)	6.8	6.4	5.0	5.8
<b>TRS Equity - International</b>	<b>(31.9)</b>	<b>(7.7)</b>	<b>29.6</b>	<b>27.3</b>	<b>17.3</b>	<b>(6.6)</b>	<b>4.0</b>	<b>3.3</b>
Non-U.S. Equity Index	(30.5)	(6.2)	30.2	28.4	17.0	(5.3)	5.0	2.9
<b>TRS Real Estate</b>	<b>(30.0)</b>	<b>4.5</b>	<b>25.3</b>	<b>18.8</b>	<b>19.9</b>	<b>(2.9)</b>	<b>5.5</b>	<b>7.0</b>
Real Estate Property Index	(19.6)	9.2	17.2	18.7	18.0	1.0	7.6	8.5
<b>TRS Private Equity</b>	<b>(17.9)</b>	<b>3.3</b>	<b>29.3</b>	<b>23.8</b>	<b>20.0</b>	<b>3.1</b>	<b>10.3</b>	<b>12.1</b>
Russell 3000 Index + 3.0%*	(24.3)	(10.0)	23.7	12.9	11.3	(5.5)	1.2	2.0
<b>TRS Real Return</b>	<b>(26.2)</b>	<b>20.5</b>	-	-	-	-	-	-
CPI (Inflation) + 5.0%*	3.5	10.3	-	-	-	-	-	-
<b>TRS Absolute Return</b>	<b>(13.9)</b>	<b>0.9</b>	-	-	-	-	-	-
90-Day Treasury Bill + 4.0%*	5.0	7.8	-	-	-	-	-	-

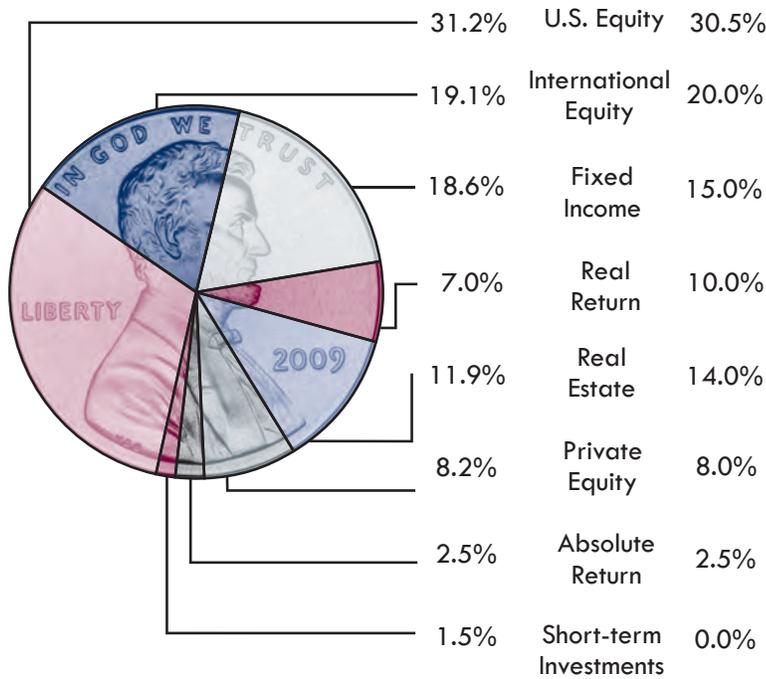
\* Index compounded monthly.

Note: Time-weighted rates of return based on the market rate of return are provided by State Street Bank and Trust.

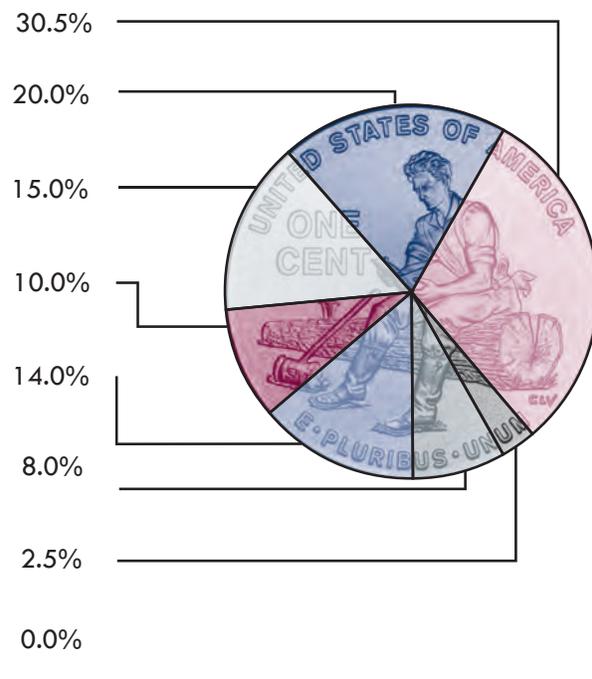
# Asset Allocation vs. Targets

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.

## FY09 Asset Allocation



## Long-term Target Allocation



In FY09, 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.

Following the unprecedented global economic events in late 2008, TRS initiated another full asset allocation study to confirm the proper long-term positioning of the investment portfolio. The results of the study were adopted by the Board of Trustees in May 2009 and represented a continued evolution of the risk-diversification strategy adopted in FY07.

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, 2009.

## Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/09	FY09			FY08	
	Total Fund \$Millions	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. Equities	\$8,864	31.2%	31.5%	30.5%	33.2%	30.5%
International Equities	5,441	19.1	20.0	20.0	21.4	20.0
Fixed Income	5,280	18.6	16.0	15.0	17.2	15.0
Real Return	1,978	7.0	7.7	10.0	8.0	10.0
Real Estate	3,382	11.9	14.0	14.0	12.5	14.0
Private Equity	2,345	8.2	7.0	8.0	6.3	8.0
Absolute Return	720	2.5	2.5	2.5	1.3	2.5
Short-Term Investments	433	1.5	1.3	0.0	0.1	0.0
Pending Settlements/Expenses*	518	NA	NA	NA	NA	NA
<b>Total Fund</b>	<b>\$28,961</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* 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

	2009		2008	
	Market Value	% of Total	Market Value	% of Total
<b>U.S. Government Obligations</b>				
U.S. Treasuries	\$300,375,693	1.0%	\$710,206,700	1.8%
U.S. Federal Agencies	334,260,961	1.2	492,181,750	1.3
U.S. Government Index Linked Bonds	195,845,375	0.7	296,216,084	0.8
U.S. Government Backed Mortgages	1,642,564,054	5.7	2,374,253,476	6.0
U.S. Municipals (Taxable)	56,014,455	0.2	28,296,195	0.1
<b>Credits</b>				
Bank Loans	13,928,309	-	30,986,760	0.1
Financial	829,021,837	2.9	1,319,616,385	3.3
Industrial	766,386,520	2.6	706,891,256	1.8
Utilities	223,845,079	0.8	112,941,987	0.3
Structured Notes	-	-	3,000,000	-
Asset Backed Securities	242,291,664	0.8	370,453,273	0.9
Commercial Mortgage Backed Securities	54,815,495	0.2	361,639,452	0.9
Collateralized Mortgage Obligations	604,540,058	2.1	755,133,505	1.9
Commingled/Closed End Funds	85,399,730	0.3	81,924,023	0.2
Corporate Convertible Bonds	2,375,250	-	6,493,000	-
Foreign Debt Obligations	1,022,504,237	3.5	1,319,829,277	3.3
<b>Total Bonds, Corporate Notes, and Government Obligations</b>	<b>6,374,168,717</b>	<b>22.0</b>	<b>8,970,063,123</b>	<b>22.7</b>
<b>Equities</b>				
Common Stock - U.S.	7,988,982,368	27.6	10,833,227,881	27.4
Preferred Stock - U.S.	57,209,873	0.2	30,706,395	0.1
Common Stock - International	5,335,746,892	18.4	8,183,568,806	20.7
Preferred Stock - International	137,530,669	0.5	296,230,161	0.8
<b>Total Equities</b>	<b>13,519,469,802</b>	<b>46.7</b>	<b>19,343,733,243</b>	<b>49.0</b>
<b>Real Return – Commingled Funds</b>				
Commodity Funds	340,890,337	1.2	652,811,731	1.7
Global Macroeconomic Strategies	1,190,240,068	4.1	1,465,924,159	3.7
<b>Total Real Return – Commingled Funds</b>	<b>1,531,130,405</b>	<b>5.3</b>	<b>2,118,735,890</b>	<b>5.4</b>
<b>Short-term Investments/</b>				
<b>Cash Equivalents</b>	<b>1,062,916,049</b>	<b>3.7</b>	<b>1,330,031,596</b>	<b>3.4</b>
<b>Derivatives—Options, Futures, and Swaps</b>				
	(6,846,436)	-	(25,678,522)	(0.1)
<b>Foreign Currency</b>	<b>35,797,184</b>	<b>0.1</b>	<b>60,605,839</b>	<b>0.1</b>
<b>Absolute Return</b>	<b>719,854,863</b>	<b>2.5</b>	<b>504,224,094</b>	<b>1.3</b>
<b>Private Equity</b>	<b>2,344,035,473</b>	<b>8.1</b>	<b>2,399,224,145</b>	<b>6.1</b>
<b>Real Estate Equity</b>	<b>3,380,826,272</b>	<b>11.6</b>	<b>4,794,916,293</b>	<b>12.1</b>
<b>TRS Total Portfolio</b>	<b>\$28,961,352,329</b>	<b>100.0%</b>	<b>\$39,495,855,701</b>	<b>100.0%</b>

# 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.

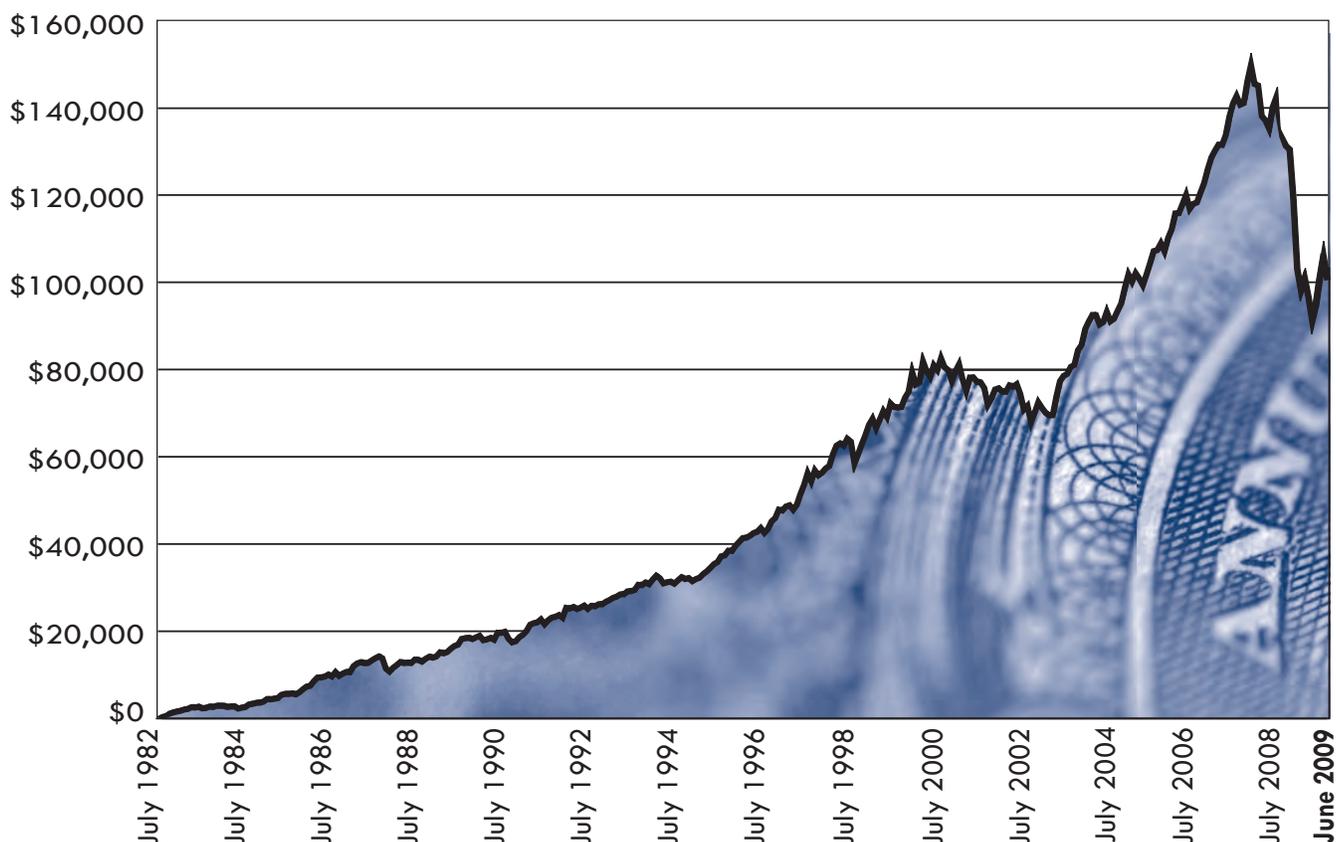
## Securities Holdings for Years Ending June 30

Asset Type	2009	2008	2007	2006	2005
Bonds, Corporate Notes, and Government Obligations	22.0%	22.7%	24.0%	27.9%	29.4%
Equities - U.S.	27.8	27.5	33.0	33.6	35.8
Equities - International	18.9	21.5	22.6	19.8	17.7
Real Return	5.3	5.4	-	-	-
Short-Term Investments/Currency	3.8	3.4	3.6	4.2	4.1
Absolute Return	2.5	1.3	1.2	-	-
Private Equity	8.1	6.1	4.5	4.0	3.0
Real Estate Equity	11.6	12.1	11.1	10.5	10.0
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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 27 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, 2009.

## 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 27.3 percent on a net of fee basis, compared to the Russell 3000 Index loss of 26.6 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

	<b>FY09</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>(27.3%)</b>	<b>(9.7%)</b>	<b>(2.7%)</b>	<b>(1.6%)</b>
Russell 3000 Index	(26.6)	(8.4%)	(1.8%)	(1.5%)

The top 10 domestic equity holdings at June 30, 2009, are listed below and represent 9.1 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, 2009

<b>Firm</b>	<b>Market Value</b>
Exxon Mobil Corp.	\$109,153,140
Microsoft Corp.	78,975,064
Chevron Corp.	74,819,239
Qualcomm, Inc.	71,117,680
Wells Fargo and Company	69,904,753
Hewlett-Packard Co.	69,667,282
International Business Machines Corp.	67,997,051
Google, Inc.	66,311,891
JP Morgan Chase & Co.	65,932,720
Johnson & Johnson	58,663,381
<b>Total</b>	<b><u>\$732,542,201</u></b>

Source: State Street Bank and Trust

At June 30, 2009, 31.2 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 FY09.

As of June 30, 2009, 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)

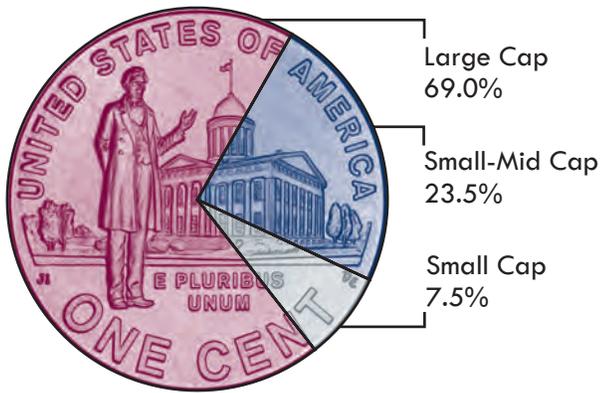
<b>Index (Large Cap)</b>	
RhumbLine Advisors, L.P. (5/06)	\$719,506,957
<b>Enhanced Index (Large Cap)</b>	
Barclays Global Investors (6/05)	526,540,691
Pacific Investment Management Company, L.L.C. (8/91)	587,449,670
Piedmont Investment Advisors, L.L.C. (2/07)	89,848,252
T. Rowe Price Associates, Inc. (6/05)	601,397,046
<b>Large Cap Core</b>	
Analytic Investors, L.L.C. (12/07)	450,655,548
J.P. Morgan Investment Management, Inc. (12/07)	450,683,214
<b>Large Cap Value</b>	
Dodge & Cox (4/00)	599,783,150
EARNEST Partners, L.L.C. (2/02)	90,041,222
RhumbLine Advisors, L.P. (11/08)	156,468,796
Robeco Boston Partners Asset Management, L.P. (1/03)	432,217,575
<b>Large Cap Growth</b>	
T. Rowe Price Associates, Inc. (11/06)	445,822,367
Turner Investment Partners, Inc. (6/04)	628,563,915
Wellington Management Company, L.P. (11/07)	280,749,128
<b>Index (Small/Mid Cap Core)</b>	
Rhumblin Advisors, L.P. (5/07)	226,007,238
<b>Small/Mid Cap Value</b>	
Boston Company Asset Management, L.L.C. (7/08)	182,825,539
Cramer Rosenthal McGlynn, L.L.C. (3/09)	125,061,320
LSV Asset Management (12/02)	411,016,976
State Street Global Advisors (6/06)	110,745,495
<b>Small/Mid Cap Growth</b>	
Boston Company Asset Management, L.L.C. (3/09)	125,247,956
Copper Rock Capital Partners, L.L.C. (12/06)	157,863,907
Fred Alger Management, Inc. (12/07)	135,379,314
Mazama Capital Management, Inc. (1/03)	147,821,249
Tygh Capital Management, Inc. (6/06)	211,230,760
<b>Small Cap Growth</b>	
Emerald Advisors, Inc. (11/04)	174,045,350
Mazama Capital Management, Inc. (11/04)	123,032,076
<b>Small Cap Value</b>	
AQR Capital Management, L.L.C. (11/06)	182,052,561
Thompson, Siegel & Walmsley, Inc. (11/04)	159,064,367
<b>Emerging Manager</b>	
Credo Capital Management (6/09)	25,272,136
Denali Advisors, L.L.C. (4/08)	33,298,359
Fiduciary Management Associates, L.L.C. (2/07)	36,119,784
Lombardia Capital Partners, L.L.C. (2/07)	31,189,342
Ranger Investment Management (7/08)	30,555,230
<b>Transition Manager</b>	
Barclays Global Investors (6/08)	176,617,696

Note: The list does not include managers terminated prior to June 30, 2009 with residual assets in the account.

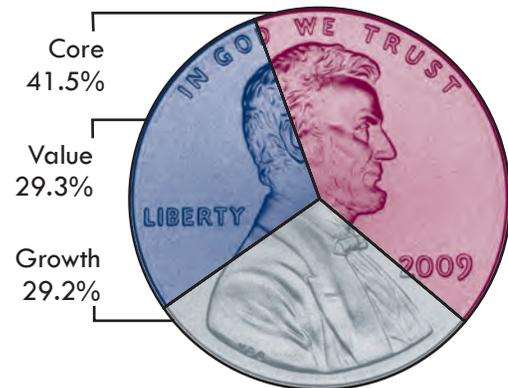
## Discussion of U.S. Equity

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 declines in the domestic equity market that began in October 2007 accelerated in late 2008 as the global financial crisis led to a massive market selloff and stock prices reflected the potential of an economic depression. The broad U.S. stock market (Russell 3000 Benchmark) hit a month-end low in February 2009, down 42 percent for the fiscal year and 51 percent since the October 2007 peak. The market recovered sharply beginning in March 2009 as economic expectations improved following passage of several stimulus initiatives by the federal government. The TRS domestic equity portfolio was down 27.3 percent for the fiscal year and lagged its Russell 3000 benchmark by approximately 0.7 percent. The underperformance was driven by a fearful and turbulent stock market that caused a significant disconnect between stock valuations and the true fundamental value of U.S. companies. The TRS portfolio did manage to outperform the benchmark during the last six months of the fiscal year as fundamental valuation returned to the market.

## 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, 2009

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted Average Market Cap (billions)	\$37.2	\$58.7
Price/Earnings Ratio	23.4x	19.8x
Dividend Yield	1.7%	2.2%
Beta	1.1	1.0
5-Year EPS Growth	16.5%	13.8%
Price/Book Ratio	2.9x	3.0x

Source: State Street Bank and Trust

## U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2009

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Commingled Funds	5.6%	0.0%
Consumer Discretionary	11.9	11.0
Consumer Durables	5.3	9.3
Energy	7.4	10.9
Financial Services	14.2	14.6
Health Care	13.4	13.6
Industrials	10.2	11.0
Materials	3.3	4.0
Private Placement	5.5	0.0
Technology	18.3	17.9
Telecommunication Services	2.3	3.3
Utilities	2.6	4.4
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: State Street Bank and Trust

## 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, 2009, the international equity asset class declined 31.9 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 30.5 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY09	3-Year	5-Year	10-Year
<b>TRS, net of fees</b>	<b>(31.9%)</b>	<b>(6.6%)</b>	<b>4.0%</b>	<b>3.3%</b>
Non-U.S. Equity Index	(30.5)	(5.3)	5.0	2.9

The following table lists the top 10 international equity holdings of active managers as of June 30, 2009. 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 10.3 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, 2009

Firm	Country	Market Value (USD)
Telefonica	Spain	\$76,367,046
BP	United Kingdom	68,769,483
GlaxoSmithKline	United Kingdom	67,317,119
Nestle	Switzerland	63,132,499
Canon, Inc.	Japan	60,141,791
BG Group	United Kingdom	53,603,781
Carrefour Group	France	44,059,539
Deutsche Telekom	Germany	43,792,153
China Mobile Ltd.	China	43,435,103
France Telecom	France	42,952,625
<b>Total</b>		<b><u>\$563,571,139</u></b>

Source: State Street Bank and Trust

At June 30, 2009, 19.1 percent of the TRS investment portfolio was assigned to international equity managers. 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)
<b>Large Cap Growth</b>	
Jarislowsky, Fraser Limited (8/05)	\$296,588,897
McKinley Capital Management, Inc. (8/05)	758,391,171
Trilogy Global Advisors, L.L.C. (8/07)	277,481,930
State Street Global Advisors (8/05)	258,715,374
<b>Large Cap Value</b>	
Brandes Investment Partners, L.P. (2/98)	821,555,053
Mondrian Investment Partners Limited (4/93)	843,854,091
<b>Enhanced Index</b>	
State Street Global Advisors (8/07)	272,238,980
<b>Small Cap</b>	
American Century Global Investment Management, Inc. (6/08)	134,085,444
Dimensional Fund Advisors, L.P. (6/08)	177,314,248
Putnam Advisory Company, L.L.C. (3/09)	120,873,610
State Street Global Markets (8/07)	61,320,362
<b>Passive Non-U.S.</b>	
Barclays Global Advisors (5/07)	201,439,733
State Street Global Markets (6/09)	285,426,632
<b>Emerging Markets</b>	
Aberdeen Asset Management, Inc. (3/08)	281,796,133
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	640,674,262

Note: The list does not include managers terminated prior to June 30, 2009 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

<b>International Equity Classification</b>	<b>Target</b>	<b>Actual</b>
Enhanced Passive Non-U.S.	11.5%	15.1%
Active Core	60.0	59.2
Small Cap	12.0	9.0
Emerging Markets	16.5	16.7
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

International equity markets posted significant losses for the year ended June 30, 2009, falling 30.5 percent as measured by the MSCI All Country Ex-U.S. Free Index (“ACWI”). As with the U.S. market, international stocks declined sharply during the first half of the fiscal year as markets reacted to the global financial crisis. Following initial signs of stability, international stocks then posted strong gains through the end of the fiscal year. Overall, the unprecedented level of market volatility made active management challenging over the period.

The emerging markets region, which is developing economies in the international markets and represents 21.0 percent weighting of the international index, was the most volatile. It fell 46.9 percent during the first half of the fiscal year, yet rebounded strongly during the second half, returning 38.3 percent. Within the emerging markets, the Far East region was the best performer, led by India and China’s modest losses of 5.02 and 8.15 percent, respectively. In the developed portion of the non-U.S. markets, Hong Kong, which represents 1.7 percent in the international index, was the best-performing market for the year ended June 30, 2009, losing 15.4 percent. Hong Kong benefited from its exposure to the strong Chinese economy. Europe, the largest international equity region representing 46.0 percent of the MSCI ACWI Index, dropped more compared to the broad market advance, depreciating by 34.0 percent. Ireland was the worst-performing European country due to its heavy financial exposure, dropping 66.4 percent.

The TRS international equity portfolio recorded negative returns for FY09 losing 31.9 percent, net of fees, and underperforming its index by 1.4 percent. The portfolio’s defensive positioning posted solid relative performance during the market crisis outperforming its benchmark by 1.4 percent, but this defensive stance failed to fully participate in the strong rally that finished the fiscal year.

At the sector level, the TRS portfolio was underexposed to basic materials and energy sectors. The portfolio’s underweight to these sectors benefited the portfolio during the market crisis, but has been a detractor as these sectors have rebounded strongly relative to most others. These industries are often considered much more cyclical in nature and do not possess the long-term quality sought by TRS international equity managers.

## Portfolio Characteristics

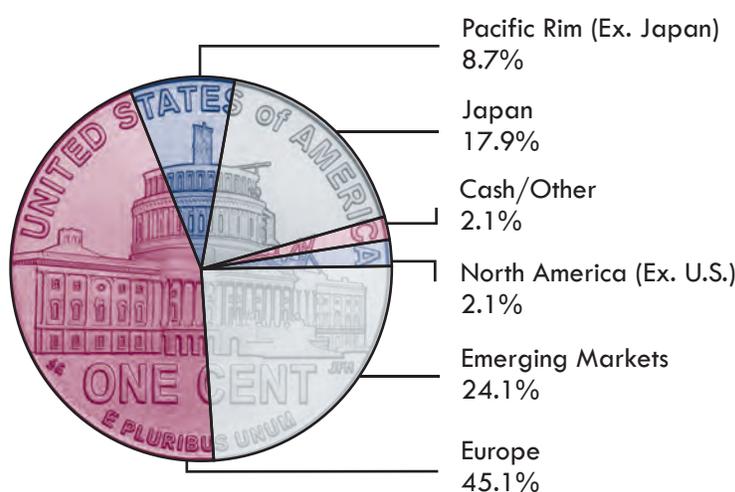
The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

### International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted Average Market Cap (billions)	\$31.9	\$11.2
Price/Earnings Ratio	15.0x	15.3x
Dividend Yield	3.4%	3.4%
Price/Book Ratio	2.3x	2.2x

Source: State Street Bank and Trust Company

### Regional Allocation Comparison June 30, 2009 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, 2009, TRS's fixed income managers earned a 4.9 percent return, net of fees, compared to the 6.1 percent return of the benchmark, the Barclays Capital Aggregate Index. For periods longer than two years, 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:

	FY09	3-Year	5-Year	10-Year
TRS, net of fees	4.9%	5.3%	4.5%	5.4%
TRS Fixed Income Index	6.1	6.4	5.0	5.8

The following table lists the top 10 global fixed income securities held by all TRS's managers as of June 30, 2009. These securities represent 9.6 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, 2009

Security/Position	Rate	Market Value
Federal National Mortgage Association TBA	6.00%	\$185,278,500
Federal National Mortgage Association TBA	5.00	72,842,051
Freddie Mac	0.94	61,384,036
Federal National Mortgage Association TBA	5.50	54,242,500
Federal National Mortgage Association TBA	5.00	48,870,000
Goldman Sachs CT High Yield Fund	-	47,943,707
U.S. Treasury Inflation Index-linked Bond	2.13	41,387,594
Goldman Sachs CT Emerging Markets Debt Implementation Fund	-	35,743,487
U.S. Treasury Bond	4.25	31,476,912
Small Business Administration	4.86	29,673,466
<b>Total</b>		<b><u>\$608,842,253</u></b>

Source: State Street Bank and Trust and TRS

At June 30, 2009, 18.6 percent of the TRS investment portfolio was assigned to global fixed income managers. The following 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)

<b>Core Plus</b>	
Dolan McEniry Capital Management, L.L.C. (5/06)	\$154,995,824
EARNEST Partners Limited, L.L.C. (2/02)	145,063,749
Goldman Sachs Asset Management, L.P. (5/06)	1,070,342,834
Pacific Investment Management Company, L.L.C. (7/82)	1,231,861,302
Pacific Investment Management Company, L.L.C. (4/09)	210,005,679
Taplin, Canida & Habacht (3/04)	459,586,391
<b>International</b>	
Franklin Advisers, Inc. (2/08)	502,996,535
<b>Enhanced Indexed</b>	
Prudential Investment Management, Inc. (12/08)	843,863,904
<b>Long Duration</b>	
Loomis Sayles & Company, L.P. (6/08)	629,302,061

Note: This list does not include certain managers terminated prior to June 30, 2009 with residual assets in the account.

## Discussion of Global Fixed Income

As of June 30, 2009, the TRS global fixed income portfolio underperformed its assigned benchmark by 1.2 percent. Longer-term returns are more in line with the assigned index. As the market recovered from the financial deleveraging and credit crisis of late 2008, the flight to quality was evident.

From July through December 2008, all government-related securities outperformed other debt sectors as investors' overwhelming priority was safety. As liquidity improved in early 2009, investors began to re-enter the broader market and the performance of non-treasury holdings improved dramatically. While the portfolio lagged early in the year, TRS was well positioned to take advantage of this market recovery and began to outperform the benchmark by wide margins late in 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 6/30/09	Barclays Capital Aggregate Index 6/30/09	TRS Fixed Income Portfolio 6/30/08	Barclays Capital Aggregate Index 6/30/08
Average Maturity	7.8 years	5.9 years	9.9 years	7.5 years
Effective Duration	4.8 years	4.2 years	4.7 years	4.7 years
Average Coupon	5.0%	5.0%	5.2%	5.4%
Average Quality Rating	Aa3	Aaa	Aa1	Aa2
Current Yield	5.5%	4.8%	5.3%	5.3%

Source: State Street Bank and Trust

## Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2009	2008
Agency	1.0%	5.4%
Aaa*	51.9	60.9
Aa1 through Aa3	5.9	8.8
A1 through A3	13.4	9.8
Baa1 through Baa3	15.8	9.0
Ba1 through Ba3	4.6	1.7
B1 through B3	2.9	1.4
Other**	4.5	3.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* Aaa includes Treasury securities

\*\* Other includes under B3 and unrated securities.

Note: Chart includes enhance equity indexed underlying bond holdings.

Source: State Street Bank and 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 generally 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, 2009, TRS's real return asset class declined 26.2 percent, net of fees, compared to the 3.5 percent return of the benchmark. At June 30, 2009, 7.0 percent of TRS's invest-

ment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked, global macroeconomic, and balanced commodities strategies during FY09. As of June 30, 2009, 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)

<b>Global Inflation-linked Bonds</b>	
New Century Advisors, L.L.C. (2/08)	\$23,331,003
Pacific Investment Management Company, L.L.C. (5/07)	209,771,741
Western Asset Management Company (2/05)	201,244,676
<b>Global Macroeconomic Strategies</b>	
AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	294,008,574
Bridgewater All Weather Portfolio Offshore Limited (7/07)	437,796,800
Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	458,434,693
<b>Commodities</b>	
Gresham Investment Management Company, L.L.C. (3/09)	114,190,915
PIMCO Commodity Real Return Fund, L.L.C. (3/08)	103,493,755
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	136,205,675

## Discussion of Real Return

The real return asset class produced a very strong return of 20.5 percent in FY08. As a result, TRS took profits totaling over \$335 million from this asset class during FY09. As the global markets reacted to the credit crisis, widespread selling of commodities and inflation-linked investments had a material impact on the portfolio. As a fund diversifier and inflation hedge, the real return asset class modestly outperformed the broad U.S. and international stock markets indices. TRS continues to prudently increase its investment in the real return asset class and expects to reach its long-term target of 10.0 percent in FY10.

## Real Return Interim Targets and Actual Allocation as of June 30, 2009

<b>Real Return Subclasses</b>	<b>Target</b>	<b>Actual</b>
Global Inflation-linked Bonds	20.0%	21.9%
Global Macroeconomic Strategies	70.0	60.2
Commodities	10.0	17.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 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, 2009, private equity outperformed the benchmark by 6.4 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 return, outperforming the benchmark by 10.1 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:

	<b>FY09</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>(17.9%)</b>	<b>3.1%</b>	<b>10.3%</b>	<b>12.1%</b>
Russell 3000 Index + 3.0%	(24.3)	(5.5)	1.2	2.0

At June 30, 2009, 8.2 percent of the TRS investment portfolio was assigned to the private equity asset class. The long-term target for private equity is 8 percent of the total fund. 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, 2009.

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

#### **Buyout**

Advent International GPE VI, L.P. (2/08)	\$10,798,983
Apollo Investment Fund V, L.P. (5/01)	89,048,342
Apollo Investment Fund VI, L.P. (8/05)	101,839,873
Apollo Investment Fund VII, L.P. (8/07)	56,956,263
Banc Fund VI, L.P. (12/02)	28,549,315
Banc Fund VII, L.P. (5/05)	17,865,542
Carlyle Partners IV, L.P. (12/04)	79,793,704
Carlyle Partners V, L.P. (5/07)	52,581,672
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	56,349,010
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (2/06)	91,854,712
Castle Harlan Partners IV, L.P. (5/03)	22,632,541
Code Hennessy & Simmons V, L.P. (2/05)	15,809,603
DLJ Merchant Banking Partners II, L.P. (3/97)	8,752,934
DLJ Merchant Banking Partners III, L.P. (9/00)	80,765,658
Elevation Partners, L.P. (2/05)	16,645,340
Energy Capital Partners I, L.P. (2/06)	10,005,494
Evercore Capital Partners II, L.P. (4/03)	32,660,506
GI Partners (1/09)	3,305,359
Glencoe Capital Partners III, L.P. (1/04)	14,090,426
Glencoe Capital Institutional Partners III, L.P. (6/04)	3,246,009
Green Equity Investors V, L.P. (2/07)	24,160,671
GTCR Fund VII/VIIA, L.P. (3/00)	1,694,129
GTCR Fund VIII, L.P. (7/03)	28,503,957
Hispania Private Equity, L.P. (5/04)	987,704
ICV Partners II, L.P. (12/05)	6,607,051
J.C. Flowers II, L.P. (2/07)	17,672,912
KKR 1996 Fund, L.P. (5/97)	7,771,733
Madison Dearborn V, L.P. (7/06)	55,337,970
MBK Partners (5/09)	5,278,025

Continued

Mesirow Capital Partners VII, L.P. (6/97)	\$864,703
New Mountain Partners III, L.P. (5/07)	21,501,792
Onex Partners III, L.P. (04/09)	1,028,829
PAI Europe V, L.P. (2/08)	7,130,084
Pine Brook Capital Partners, L.P. (12/07)	10,093,935
Providence Equity Partners VI, L.P. (3/07)	48,247,893
Reliant Equity Partners, L.P. (6/04)	215,046
Riverstone/Carlyle GL IV (12/07)	29,378,228
Silver Lake Partners III, L.P. (2/07)	14,056,941
TCW/Latin America Private Equity Partners, L.P. (5/97)	7,225
Thayer Equity Investors V, L.P. (5/03)	32,946,516
TPG Partners IV, L.P. (12/03)	28,860,016
TPG Partners VI, L.P. (4/08)	2,210,274
Trilantic Capital Partners III, L.P. (2/05)	35,316,594
Trilantic Capital Partners IV, L.P. (2/07)	11,146,188
Trivest Fund II, Ltd. (6/96)	872,009
Vicente Capital Partners Growth Equity Fund, L.P. (2/08)	2,225,732
Vista Equity Partners Fund III, L.P. (10/07)	29,157,284
VS&A Communications Partners II, L.P. (9/95)	2,128,736
VSS Communication Partners IV, L.P. (2/05)	28,725,274
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	45,457,677
Windpoint Partners VI, L.P. (5/05)	13,550,365
WPG Corporate Development Associates V, L.P. (11/97)	1,080,815

#### **Distressed Debt**

Avenue Europe Special Situations Fund, L.P. (5/08)	22,998,170
Avenue Special Situations Fund V, L.P. (8/07)	66,936,645
Carlyle Strategic Partners, L.P. (2/04)	8,444,540
Clearlake Capital Partners, L.L.C. (5/09)*	0
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	31,803,618
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	39,200,704
MatlinPatterson Preferred II (3/09)	4,500,000
OCM Opportunities Fund V, L.P. (6/04)	4,714,673
OCM Opportunities Fund VIIIb, L.P. (12/07)	85,044,461
OCM European Principal Opportunities Fund II, L.P. (8/08)	30,524,363

#### **Subordinated Debt**

Maranon Mezzanine Fund, L.P. (6/09)*	0
Merit Mezzanine Fund IV, L.P. (2/04)	44,916,496
Prism Mezzanine Fund, L.P. (5/04)	7,068,276
SW Pelham Fund II, L.P. (9/03)	10,964,749
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	34,840,057
William Blair Mezzanine Capital Fund II, L.P. (5/97)	6,523,050
William Blair Mezzanine Capital Fund III, L.P. (1/00)	11,144,647

#### **Venture Capital**

21st Century Communications T-E Partners, L.P. (2/95)	309,706
Apex Investment Fund III, L.P. (6/96)	38
Apex Investment Fund V, L.P. (8/03)	13,545,915
Carlyle Venture Partners II, L.P. (10/02)	88,230,457
Carlyle Venture Partners III, L.P. (6/07)	22,815,181
Edgewater Growth Capital Partners, L.P. (11/03)	16,232,193
Edgewater Growth Capital Partners II, L.P. (2/05)	17,859,374
Evergreen Partners IV, L.P. (12/02)	15,559,937
Evergreen Partners V, L.P. (6/07)	9,444,609
Granite Ventures II, L.P. (5/05)	7,238,843
HealthPoint Partners, L.P. (6/04)	35,956,447
Hopewell Ventures, L.P. (6/04)	2,604,919

\* Partnership was not funded at June 30, 2009. Date reflects the TRS Board of Trustees' approval.

Continued

Illinois Emerging Technologies Fund, L.P. (6/04)	\$1,631,832
Longitude Venture Partners, L.P. (2/08)	6,242,149
SCP Private Equity Partners, L.P. (5/97)	1,158,104
SCP Private Equity Partners II, L.P. (6/00)	57,212,012
Shasta Ventures, L.P. (12/04)	16,213,429
Starvest Partners, L.P. (1/09)	1,611,089
Technology Crossover Ventures VII, L.P. (10/07)	2,114,829
VantagePoint Venture Partners IV, L.P. (6/00)	56,558,968
VantagePoint Venture Partners 2006, L.P. (12/06)	18,721,920
Warburg Pincus International Partners, L.P. (9/00)	59,148,117
Warburg Pincus International Partners IX, L.P. (8/05)	92,218,738
Warburg Pincus Private Equity X, L.P. (8/07)	64,398,342
WPG Enterprise Fund II, L.P. (8/94)	10,538,052
WPG Enterprise Fund III, L.P. (3/97)	9,078,231

## Discussion of Private Equity

At June 30, 2009, following five years of positive returns, TRS's private equity portfolio declined 17.9 percent. The return still outperformed the benchmark by 6.4 percent. With the overall strength of the program and the asset class's diversification benefits to the overall portfolio, the TRS Board of Trustees affirmed its commitment to private equity, raising the long-term target to 10.0 percent, effective FY10. 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 FY10 or 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, 2009.

### Private Equity Target and Actual Allocation as of June 30, 2009

Subclasses	Target	Actual
Buyout	60-70%	53.8%
Venture Capital	10-20	26.7
Special Situations/Distressed Debt/Subordinated Debt	5-15	19.5
<b>Total</b>		<b>100.0%</b>

Source: TRS

TRS made new commitments to 13 separate funds totaling close to \$700 million during the fiscal year. Included in this total were funds that can strategically benefit during recessionary or distressed-market environments. As part of the System's plan to diversify the private equity portfolio on a geographic basis, TRS also entered into its first Asian domiciled fund within the fiscal year. For FY10, the TRS private equity tactical plan calls for new commitments of approximately \$800 to \$1,200 million within the asset class.

## 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.

Investments in this asset class are administered via both direct managers and diversified fund of funds. At June 30, 2009, the long-term target of the absolute return asset class is 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, 2009, TRS's absolute return investment asset class declined 13.9 percent, net of fees, compared to the 5.0 percent return of the benchmark. FY09 was the second full year of implementation for the absolute return asset class.

At June 30, 2009, 2.5 percent of TRS's investment portfolio was assigned to absolute return managers. As of June 30, 2009, TRS employed the following managers including their respective assets under management.

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

#### **Diversified**

Bridgewater Pure Alpha Fund I (1/09) \$171,559,497

#### **Diversified Fund of Funds**

Grosvenor Monarch Fund, L.L.C. (6/07) 216,083,518

K2 Bluegill Fund, L.L.C. (6/07) 332,211,848

### **Discussion of Absolute Return**

The absolute return portfolio lagged its benchmark in FY09 due to modest exposure to equities combined with significant market declines. However, performance was significantly better than the broad U.S. equity markets (the S&P 500 stock index declined 26.2 percent for the year). While the underperformance for the fiscal year is disappointing, it is within expectations given the extreme market environment. The initial portfolio target of 2.5 percent allocation was completed in January 2009 with the addition of Bridgewater Pure Alpha Fund I and additional incremental funding of K2 Bluegill Fund. TRS will continue implementation of this asset class toward its new 5.0 percent target allocation over the coming fiscal year.

## **Real Estate**

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, and hotels. 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.

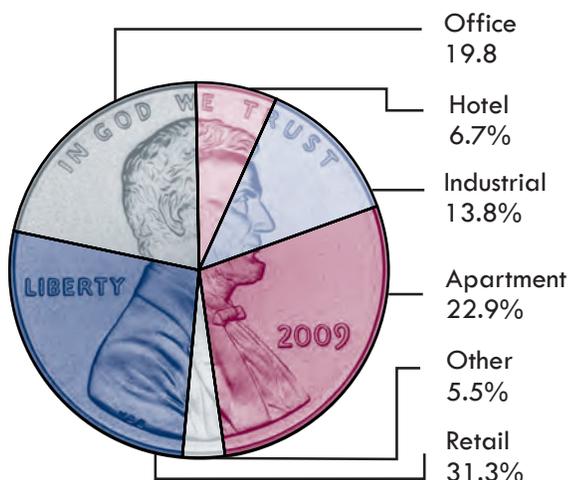
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2009, TRS held \$3.4 billion in real estate assets, or 11.9 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments declined 30.0 percent. Real estate performance and benchmark comparison are noted in the following table:

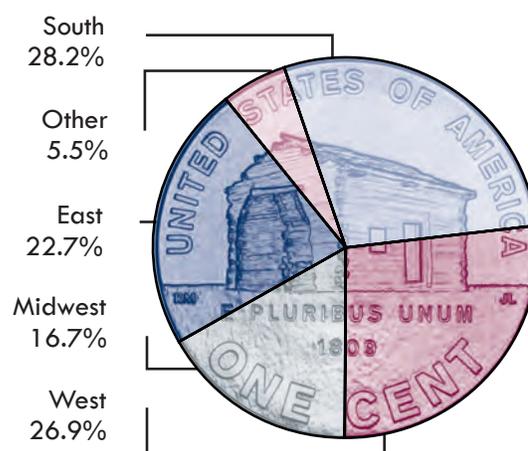
	<b>FY09</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
<b>TRS, net of fees</b>	<b>(30.0%)</b>	<b>(2.9%)</b>	<b>5.5%</b>	<b>7.0%</b>
Real Estate Property Index	(19.6)	1.0	7.6	8.5

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, 2009



### Geographic Diversification of Real Estate Holdings as of June 30, 2009



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, 2009, 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)	\$597,963,351
Cornerstone Real Estate Advisors, L.L.C. (7/08)	259,545,217
Cozad/Westchester Asset Management, Inc. (5/91)*	7,446,504
Commonwealth Realty Advisors, Inc. I (9/91)	864,095,785
Invesco Institutional (N.A.), Inc.	224,523,081
Koll Bren Schreiber Realty Advisors I (6/93)	276,077,189
Koll Bren Schreiber Realty Advisors II (5/96)*	1,886
LPC Realty Advisors I, Ltd. (7/92)	234,411,865
LPC Realty Advisors Core, Ltd. (4/07)	18,244,859
Stone-Levy, L.L.C. (4/95)	126,396,819

#### Closed End Accounts

Beacon Capital Partners V, L.P. (8/07)	23,670,038
Blackstone Real Estate Partners VI, L.P. (9/07)	10,032,953
Capri/Capital Apartment Fund III (3/90)	106,464,168
Capri Select Income Fund II, L.L.C. (12/05)	9,069,030
Carlyle Realty Partners IV, L.P. (6/05)	42,494,298
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	3,853,117
DLJ Real Estate Capital Partners, Inc. (3/96)*	562,417
JBC Opportunity Fund II, L.P. (7/03)	23,812,926
JER Real Estate Partners III, L.P. (1/05)	37,887,673
RLJ Lodging Fund II, L.P. (9/06)	37,999,214
RLJ Lodging Fund III, L.P. (8/08)	1,613,608

\* In liquidation mode.

Continued

Thayer Hotel IV, L.P. (5/04)	\$14,371,102
Walton Street Capital IV, L.L.C. (7/03)	54,317,194
Walton Street Capital VI, L.L.C. (4/09)	1,064,416

#### Open End Accounts

Hines U.S. Core Office Fund, L.P. (12/05)	114,889,878
Lion Industrial Trust (4/05)	166,843,712

#### International Real Estate Accounts

Carlyle Europe Real Estate Partners, L.P. (6/03)	42,558,561
Carlyle Europe Real Estate Partners III, L.P. (9/07)	13,979,068
CB Richard Ellis Strategic Partners Europe III (4/07)	39,609,191
CB Richard Ellis Strategic Partners U.K. III (5/07)	14,340,035
LaSalle Asia Opportunity Fund III, L.P. (11/07)	2,183,919
MGPA Asia Fund III, L.P. (12/07)	10,503,199

## Discussion of Real Estate

The TRS real estate portfolio was not immune to the turmoil felt in the economic markets and the write-downs experienced in the portfolio were indicative of global market conditions. The real estate portfolio declined to 11.9 percent of the TRS investment portfolio, down from 12.5 percent in FY08. TRS continues to maintain a long-term target allocation of 14 percent to real estate. Throughout FY09, real estate property fundamentals continued to deteriorate with occupancy levels and rental receipts experiencing downward pressure. The transaction market remained constrained as real estate investors were reluctant to purchase or sell properties given current market pricing and an overall lack of available credit. In an effort to enhance returns, TRS will continue its efforts to move toward the 14 percent target allocation by upgrading the portfolio with opportunistic property acquisitions and dispositions, as well as further diversification into international investments utilizing highly-qualified international fund managers.

## Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2009 and 2008. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2009, TRS recaptured \$0.9 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 FY09, TRS used \$2.0 million of recaptured funds to offset expenditures.

### Top 50 Brokers Used by TRS Managers

Broker	FY09 Commission	FY08 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$2,250,354	\$4,331,740
J.P. Morgan Securities, Inc. (Worldwide)	1,437,635	1,297,380
Goldman Sachs & Co. (Worldwide)	1,399,255	3,071,886
Credit Suisse (Worldwide)	1,316,792	1,321,142
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	1,103,759	2,253,082
UBS Warburg Securities and all Subsidiaries (Worldwide)	897,741	863,445
Instinet, L.L.C. (Worldwide)	809,675	308,801
Citigroup, Inc. and all Subsidiaries (Worldwide)	795,827	1,062,492
Deutsche Bank & Securities (Worldwide)	750,059	842,254
Bank of New York Mellon (Worldwide)	667,392	659,766
Investment Technology Group, Inc. (Worldwide)	649,913	651,209
State Street Brokerage Services (Worldwide)	643,821	259,487
Liquidnet, Inc.	620,586	661,182

Continued

<b>Broker</b>	<b>FY09 Commission</b>	<b>FY08 Commission</b>
Barclays (Worldwide)	\$577,860	\$0
Jefferies & Company	347,209	494,142
Lynch Jones & Ryan	325,372	0
Ivy Securities, Inc.	313,267	354,734
Banc of America Securities	307,590	382,367
Cabrera Capital Markets, Inc.	279,410	117,261
Macquarie Bank & Securities, Ltd. (Worldwide)	250,924	344,856
M. Ramsey King Securities	197,954	121,544
Weeden & Co.	195,391	106,857
Union Bank of Switzerland (New York)	191,172	299,806
Sanford Bernstein (Worldwide)	169,557	115,749
Bloomberg Tradebook, L.L.C.	165,291	104,944
CL King & Associates, Inc.	161,310	113,092
Baird, Robert W., & Company, Incorporated	139,187	97,252
Raymond James (Worldwide)	138,065	146,250
Pulse Trading, L.L.C.	137,757	179,404
Cantor Fitzgerald	128,026	127,565
Piper Jaffray, Inc.	125,691	184,361
Melvin Securities, L.L.C.	125,353	117,332
Knight Securities, L.P.	125,122	204,425
RBC Dain Rauscher (Worldwide)	125,113	84,784
Oppenheimer & Company, Inc. (Worldwide)	124,991	94,417
SG Cowen & Company (Worldwide)	123,536	176,996
Loop Capital Markets, L.L.C.	123,384	127,384
Stifel Nicolaus & Company (Worldwide)	117,916	74,803
Credit Lyonnais Securities (Worldwide)	116,000	364,804
Williams Capital Group, L.P.	99,546	117,918
Thomas Weisel Partners, L.L.C.	97,755	183,514
Pipeline Trading Systems, L.L.C.	97,075	119,156
Magna Securities Corp.	91,537	130,186
ABN AMRO Securities (Worldwide)	91,464	235,407
Cazenove & Co. (Worldwide)	86,676	130,186
Guzman & Company	86,546	124,622
Chevreux De Virieu (Worldwide)	83,933	136,035
Nomura International (Worldwide)	82,250	119,869
Suntrust Robinson Humphrey	78,666	98,144
Wachovia Capital Markets (Worldwide)	75,389	78,411
All others (307 Brokers)	3,470,128	6,386,776
<b>Totals</b>	<b><u>\$22,916,222</u></b>	<b><u>\$29,979,219</u></b>

Source: The Northern Trust Company, State Street Bank and Trust, and TRS

## External Manager Fee Payments

For the year ended June 30, 2009, fee payments to external investment managers totaled \$161.9 million, a decrease of 3.3 percent from the year ended June 30, 2008. The decrease is attributable to the decline in asset values and the respective fees that are based on average asset values.

### Schedule of Investment Manager Fees

<b>Investment Manager/Account</b>	<b>FY09</b>	<b>FY08</b>
21st Century Communication T-E Partners, L.P.	\$0	\$8,504
Aberdeen Asset Management, Inc.	1,568,764	649,569
Advent International GPE VI, L.P.	1,336,499	0
American Century Global Investment Management, Inc.	577,048	40,156
Analytic Investors, L.L.C.	2,029,793	1,509,108

Continued

<b>Investment Manager/Account</b>	<b>FY09</b>	<b>FY08</b>
Apex Investment Fund III, L.P.	\$6,351	\$46,088
Apex Investment Fund V, L.P.	444,375	455,624
Apollo Investment Fund V, L.P.	0	0
Apollo Investment Fund VI, L.P.	0	0
Apollo Investment Fund VII, L.P.	2,959,834	1,888,954
AQR Capital Management, L.L.C.	1,422,684	2,031,230
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	1,320,950	1,423,467
Avenue Europe Special Situations Fund, L.P.	460,240	57,296
Avenue Special Situations Fund V, L.P.	1,500,000	1,734,246
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	793,200	741,045
Barclays Global Investors	1,083,517	1,762,560
Batterymarch Financial Management, Inc.	423,785	1,531,961
Beacon Capital Partners V, L.P.	0	0
BlackRock, Inc.	0	73,792
Blackstone Real Estate Partners VI, L.P.	750,000	541,667
Boston Company Asset Management, L.L.C.	1,490,929	0
Brandes Investment Partners, L.P.	3,182,516	4,842,701
Bridgewater All Weather Portfolio Offshore Limited	1,547,758	1,812,668
Bridgewater Pure Alpha Fund I	2,743,678	0
Capri/Capital Advisors, L.L.C.	2,219,782	4,447,741
Capri/Capital Apartment Fund III	1,496,984	1,496,984
Capri Select Income II, L.L.C.	176,262	189,905
Carlyle Europe Real Estate Partners, L.P.	463,654	232,321
Carlyle Europe Real Estate Partners III, L.P.	1,207,375	1,267,752
Carlyle Partners IV, L.P.	583,146	131,472
Carlyle Partners V, L.P.	2,266,289	1,828,687
Carlyle Realty Partners IV, L.P.	879,141	813,221
Carlyle/Riverstone Global Energy Fund II, L.P.	686,791	819,616
Carlyle/Riverstone Global Energy Fund III, L.P.	638,516	895,307
Carlyle Strategic Partners, L.P.	306,283	371,464
Carlyle Ventures Capital II, L.P.	2,078,111	2,221,839
Carlyle Ventures Capital III, L.P.	1,000,000	1,000,000
Castle Harlan Partners IV, L.P.	198,035	65,220
CB Richards Ellis Strategic Partners Europe III	665,456	725,942
CB Richards Ellis Strategic Partners UK III	519,098	632,783
Clearlake Capital Partners II, L.P.	306,692	0
Code Hennessy & Simmons V, L.P.	0	0
Commonwealth Realty Advisors, Inc.	3,981,517	4,066,582
Copper Rock Capital Partners, L.L.C.	841,135	1,126,051
Cornerstone Hotel Income & Equity Fund II, L.P.	115,942	0
Cornerstone Real Estate Advisors, L.L.C.	1,118,859	0
Cozad/Westchester Asset Management, Inc.	0	2,157,467
Cramer Rosenthal McGlynn, L.L.C.	258,856	0
Credo Capital Management	11,763	0
Denali Advisors, L.L.C.	178,212	45,689
Dimensional Fund Advisors, L.P.	969,157	60,396
DLJ Merchant Banking Partners II, L.P.	142,893	158,446
DLJ Merchant Banking Partners III, L.P.	381,571	374,809
DLJ Real Estate Capital Partners, Inc.	0	0
Dodge & Cox	2,049,411	3,981,071
Dolan McEniry Capital Management, L.L.C.	379,428	92,091
EARNEST Partners, L.L.C.	440,568	684,796
Edgewater Growth Capital Partners, L.P.	28,869	242,073
Edgewater Growth Capital Partners II, L.P.	125,746	95,551

Continued

<b>Investment Manager/Account</b>	<b>FY09</b>	<b>FY08</b>
Elevation Partners, L.P.	\$344,560	\$285,505
Emerald Advisers, Inc.	1,090,079	1,576,072
Energy Capital Partners I, L.P.	723,968	530,077
Epoch Investment Partners, Inc.	0	190,693
Evercore Asset Management, L.L.C.	13,743	176,345
Evercore Capital Partners II, L.P.	225,177	641,564
Evergreen Partners IV, L.P.	376,659	542,785
Evergreen Partners V, L.P.	312,500	624,999
Fiduciary Management Associates, L.L.C.	252,719	0
Franklin Advisers, Inc.	1,253,125	390,179
Fred Alger Management, Inc.	808,927	642,338
GI Partners	640,874	0
Glencoe Capital Partners III, L.P.	236,775	473,338
Glencoe Capital Institutional Partners III, L.P.	0	0
Goldman Sachs Asset Management, L.P.	1,419,386	1,429,236
Granite Ventures II, L.P.	500,000	470,235
Grantham, Mayo, Van Otterloo & Co., L.L.C.	4,968,639	10,713,143
Green Equity Investors V, L.P.	1,018,815	396,419
Gresham Investment Management Company, L.L.C.	140,495	0
Grosvenor Monarch Fund, L.L.C.	1,698,830	1,874,091
GTCR Fund VII/VIIA, L.P.	553,718	704,205
GTCR Fund VIII, L.P.	351,631	0
HealthPoint Partners, L.P.	566,528	566,528
Hines U.S. Core Office Fund, L.P.	850,000	706,359
Hispania Private Equity, L.P.	174,907	289,269
Hopewell Ventures, L.P.	649,673	538,092
ICV Partners II, L.P.	245,897	265,013
Illinois Emerging Technologies Fund, L.P.	27,849	32,000
ING Investment Management Company	623,791	1,131,825
Invesco Institutional (N.A.), Inc.	1,203,067	0
Jarislowsky, Fraser Limited	745,541	1,032,774
JBC Opportunity Fund II, L.P.	368,839	164,169
J.C. Flowers II, L.P.	116,703	206,977
JER Real Estate Partners III, L.P.	577,675	957,567
JP Morgan Investment Management, Inc.	83,752	29,384
JP Morgan Management Associates, L.L.C.	3,023,572	2,089,885
K2 Bluegill Fund, L.L.C.	2,363,988	2,149,630
KKR 1996 Fund, L.P.	50,819	63,647
Koll Bren Schreiber Realty Advisors	1,338,813	4,667,168
LaSalle Asia Opportunity Fund III, L.P.	1,123,450	1,135,796
Lehman Brothers Asset Management, L.L.C.	166,138	544,200
Lehman Brothers Asset Management Offshore Strategic Commodities Fund, Ltd., sub adviser		
Gresham Investment Management Company, LLC	327,371	225,854
Lion Industrial Trust	2,125,518	2,078,952
Lombardia Capital Partners, L.L.C.	114,274	0
Longitude Ventures Partners, L.P.	750,000	483,333
Loomis Sayles & Company, L.P.	1,752,336	31,936
LPC Realty Advisors I, Ltd.	2,918,464	2,860,125
LSV Asset Management	2,225,245	3,565,897
MGPA Asia Fund III, L.P.	1,136,095	1,300,506
Madison Dearborn V, L.P.	1,047,446	641,643
Maranon Mezzanine Fund, L.P.	167,898	0
MatlinPatterson Global Opportunities Fund II, L.P.	222,990	536,745
MatlinPatterson Global Opportunities Fund III, L.P.	1,415,420	1,435,398

Continued

<b>Investment Manager/Account</b>	<b>FY09</b>	<b>FY08</b>
Mazama Capital Management, Inc.	\$1,926,457	\$3,421,775
MBK Partners	553,279	0
McKinley Capital Management, Inc.	3,585,487	5,957,131
Merit Mezzanine Fund IV, L.P.	942,319	836,371
Mesirow Capital Partners VII, L.P.	0	0
Mondrian Investment Partners Limited	1,905,022	2,990,156
New Century Advisors, L.L.C.	67,198	25,242
New Mountain Partners III, L.P.	1,398,065	1,498,494
OCM European Principal Opportunities Fund II, L.P.	0	0
OCM Opportunities Fund V, L.P.	110,695	287,586
OCM Opportunities Fund VIII, L.P.	1,558,515	261,193
Onex Partners III, L.P.	487,432	0
Pacific Investment Management Company, L.L.C.	1,493,183	7,258,708
PAI Europe V, L.P.	983,155	197,501
Penman Private Equity & Mezzanine Fund, L.P.	0	70,304
Piedmont Investment Advisors, L.L.C.	44,184	47,362
PIMCO Commodity Real Return Fund, L.L.C.	0	0
Pine Brook Capital Partners, L.P.	818,850	382,248
Prism Mezzanine Fund, L.P.	613,272	651,616
Providence Equity Partners VI, L.P.	677,176	545,059
Prudential Investment Management, Inc.	214,927	0
Putnam Advisory Company, L.L.C.	208,650	0
Quantitative Management Associates, L.L.C.	996,807	1,654,000
Ranger Investment Management	214,313	0
Reliant Equity Partners, L.P.	38,548	127,984
RhumbLine Advisers, L.P.	101,551	134,684
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	1,370,573	786,997
RLJ Lodging Fund II, L.P.	711,834	468,750
RLJ Lodging Fund III, L.P.	1,232,449	0
Robeco Boston Partners Asset Management, L.P.	954,549	1,387,490
Schroder Commodity Offshore Portfolio, L.L.P.	1,219,992	590,894
SCP Private Equity Partners, L.P.	0	0
SCP Private Equity Partners II, L.P.	570,338	1,130,714
Shasta Ventures, L.P.	0	0
Silver Lake Partners III, L.P.	1,183,865	1,094,025
StarVest Partners, L.P.	600,000	0
State Street Bank and Trust Company (Custody)	50,000	0
State Street Global Advisors	513,515	608,387
State Street Global Markets	0	0
Stone-Levy, L.L.C.	730,229	1,240,078
SW Pelham Fund II, L.P.	367,406	304,411
T. Rowe Price Associates, Inc.	3,458,011	5,277,422
Taplin, Canida & Habacht	597,432	664,903
TCW/Latin American Private Equity Partners, L.P.	0	0
Technology Crossover Ventures VII, L.P.	142,663	0
Thayer Equity Investors V, L.P.	368,883	558,760
Thayer Hotel IV, L.P.	143,157	161,270
The Northern Trust Company (Custody)	441,667	550,000
Thompson, Siegel & Walmsley, Inc.	1,443,768	2,092,311
TPG Partners IV, L.P.	0	0
TPG Partners VI, L.P.	1,608,214	610,324
Trilantic Capital Partners III, L.P.	294,431	292,010
Trilantic Capital Partners IV, L.P.	720,250	813,550
Trilogy Global Advisors, L.L.C.	997,862	1,397,618
Trivest Fund II, Ltd.	0	0

Continued

<b>Investment Manager/Account</b>	<b>FY09</b>	<b>FY08</b>
Turner Investment Partners, Inc.	\$1,979,053	\$3,254,578
Tygh Capital Management, Inc.	1,368,837	2,728,410
VantagePoint Venture Partners IV, L.P.	0	0
VantagePoint Venture Partners 2006, L.P.	3,637,351	0
Vicente Capital Partners Growth Equity Fund, L.P.	300,000	405,833
Vista Equity Partners Fund III, L.P.	535,833	709,971
VS&A Communications Partners II, L.P.	0	0
VSS Communications Partners IV, L.P.	809,385	790,962
Walton Street Capital IV, L.L.C.	973,948	1,078,271
Walton Street Capital VI, L.L.C.	458,859	0
Warburg Pincus International Partners, L.P.	0	0
Warburg Pincus Private Equity IX, L.P.	2,555,904	0
Warburg Pincus Private Equity X, L.P.	6,255,626	0
Wellington Management Company, L.P.	1,103,552	1,028,390
Wellington Management Company – Diversified Inflation Hedges Portfolio, L.L.C.	3,161,042	4,079,718
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	238,634	352,695
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	235,654	721,191
Western Asset Management Company	395,168	1,458,159
William Blair Mezzanine Capital Fund II, L.P.	41,910	97,357
William Blair Mezzanine Capital Fund III, L.P.	129,743	158,490
Wind Point Partners VI, L.P.	36,960	44,125
WPG Corporate Development Associates V, L.P.	38,369	70,516
WPG Enterprise Fund II, L.P.	106,420	109,764
WPG Enterprise Fund III, L.P.	133,292	196,857
<b>Total fees paid by TRS</b>	<b><u>\$161,949,730</u></b>	<b><u>\$167,432,298</u></b>

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, State Street Bank and Trust Company, acting as the securities lending agent. The lending program with State Street Bank and Trust Company began with the commencement of the custody agreement on April 1, 2009. From July 1, 2008 to March 31, 2009, TRS participated in securities lending activity with its prior custodian, The Northern Trust Company. 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

	<b>Amount</b>
FY09 Net Securities Lending Income	\$27,943,345
Total State Street (6/30/09) Collateral Market Value	4,259,993,713
Total Market Value of Securities on Loan at State Street (6/30/09)	4,120,984,083
Total Collateralized Percentage	103%

Source: The Northern Trust Company and State Street Bank and Trust

**TRS Springfield office building, 1979 - present**

