

# 2010 Supplemental Budget Information

Prepared for the House Appropriations Committee





NICHOLAS J. MAIALE  
Chairman

Commonwealth of Pennsylvania  
**State Employees' Retirement System**  
30 North Third Street, Suite 150  
Harrisburg, Pennsylvania 17101-1716  
[www.sers.state.pa.us](http://www.sers.state.pa.us)  
Telephone: 717-787-9657  
FAX: 717-783-7300



February 3, 2010

Members of the House Appropriations Committee

Dear Members:

On behalf of the State Employees' Retirement System (SERS), I am pleased to provide you with the following supplemental information, which may be helpful to you in your budget deliberations.

In 2009 the SERS Fund made a strong recovery from the severe global economic downturn that so adversely affected the Fund in 2008. As detailed at Tab 8, Investment Policy, Objectives and Performance, the Fund earned an estimated 9% return in 2009 (unaudited). This marks the 11<sup>th</sup> time in the last 15 years that the SERS Fund has outperformed our actuarially assumed rate of return, currently 8%. That 9% gain for the year came despite the fact that the global economic downturn of 2008 extended deep into the first quarter of 2009. Overcoming that negative quarter, the Fund actually gained almost 18% in the final three quarters of the year, leading to the above-expectation performance for the full year. Over the long term, the SERS Fund's actual performance continues to exceed assumptions: the estimated 20-year compounded rate of return is 8.6% and the 30-year return is 9.9%

Because SERS is a mature pension plan -- one with almost as many retired as active members (see Tab 5, Member Services and Demographics) -- and because employer contribution rates are being artificially suppressed by Act 40 of 2003, SERS pays out far more in benefits and expenses each year than it collects in employee and employer contributions. The 2009 payouts exceeded \$2.2 billion, while contributions totaled only \$593 million; the remainder of the payouts necessarily came from Fund assets. Thus while earnings totaled \$3.3 billion, the fund grew by less. The Fund value as of December 31, 2009, stood at \$24.4 billion, up from \$22.8 billion the previous year. Over the past 10 years, SERS has paid out almost \$18.2 billion in benefits and expenses, while investment income (including seven years of gains and three of losses) totaled \$10.0 billion. During that 10-year period, employer and employee contributions, combined, totaled \$4.6 billion (employees, \$3.0 billion; employers, \$1.6 billion), or just over a quarter of payouts.

At Tab 7, Funding Process and Actuarial Status, we report on the plan's funded status, which, on an actuarial basis, stood at 89% as of December 31, 2008. That number certainly will be lower in the next valuation, despite the 2009 investment gain, because, under the statutory smoothing methodology in place for SERS, it will take five years to recognize all of the 2008 losses. Nonetheless, we expect that SERS will continue to be better funded than most other public plans, because those other plans were not as well funded as SERS prior to the recession and suffered similar losses in it.

Tab 7 also addresses future employer funding obligations, including the projected rate "spike" or, more accurately, plateau. Based on SERS' December 31, 2008 actuarial valuation, we project that the employer contribution rate -- now suppressed to the 4% statutory floor -- will rise to 5.9% in the 2010-11 Commonwealth fiscal year, then to 8.8% the next year, and then jump to 28.3% in the 2012-13 "spike" year. Rates are expected to rise further the following year, to a peak of 31.4%, and thereafter remain above 25% through 2025-26. The 2009 valuation will update those projections but we expect the projected rate levels to be substantially the same. We recognize such a steep jump in employer contribution rates will present the Commonwealth with a severe budgetary challenge. We will continue to work with the Legislature and the Administration to address that challenge, while striving to ensure that SERS remains adequately funded in order to meet its long-term obligations.

Additional tabs offer information on, among other topics, Pennsylvania investments and the Commonwealth's Deferred Compensation Program, which the SERS Board also administers.

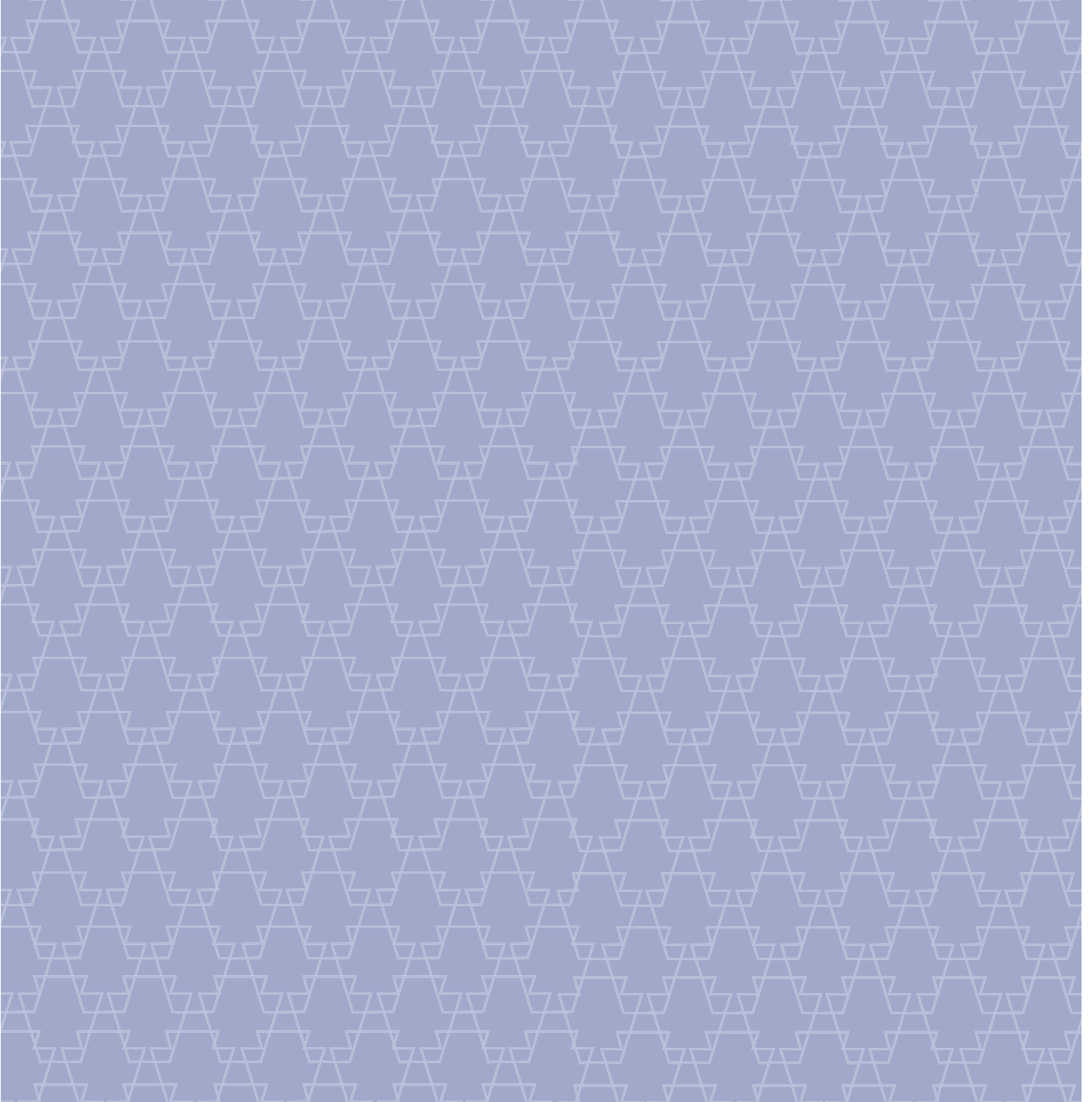
If you have any questions regarding any of the information in this booklet, please contact Executive Director Leonard Knepp. Thank you in advance for your consideration of SERS' 2010-11 budget request.

Sincerely,

Nicholas J. Maiale  
Chairman

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# Mission, Vision & Guiding Principles

Established in 1923, SERS is one of the nation's oldest and largest statewide retirement plans for public employees, with more than 220,000 members. SERS is among the largest of public and corporate pension funds, with assets of approximately \$24.4 billion as of December 31, 2009.

SERS is responsible for administering the State Employees' Retirement Code in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the state employees and retirees who are the plan beneficiaries.

State law provides that the administration of the SERS Fund and the fiduciary responsibility for its management be vested in an 11-member Board. The management of SERS is the responsibility of the Executive Director who, with the approval of the Board, contracts for professional services and employs the staff needed to operate the system.

## **Mission**

The mission of SERS is to provide retirement benefits and services to our members through sound administration and prudent investments.

## **Vision**

By 2014, SERS will have addressed the funding, policy, and operational challenges and implemented programs to address personnel and leadership transitions.

## **Guiding Principles**

- Demonstrate Integrity
- Think Strategically
- Lead Innovation and Improvement
- Develop and Empower Employees
- Share Knowledge
- Focus on Customer Service
- Learn from Mistakes
- Safeguard Information, Facilities and Staff
- Fulfill Fiduciary Obligations

# Organization & Operations

The agency's various program functions are administered by staff in SERS' Harrisburg Central Office and through a statewide network of seven Regional Retirement Counseling Centers. Assignment of major agency functions is as follows:

**Executive Office:** Supports the Executive Director who is the agency's senior staff administrator. Provides direct service to the Chairman of the Board and Board members. Makes arrangements for and conducts administrative functions for all Board meetings. Conducts research and provides agency direction on organizational development, strategic planning, pending retirement issues and actuarial considerations. Includes the **Communications and Policy Office**, which serves a variety of support functions related to communications and legislation. These include preparation and dissemination of retirement-related information and publications, tracking and reporting on retirement legislation, serving as the agency's legislative liaison and handling inquiries from the media, state Legislature and the public.

**Office of Finance and Administration:** Provides the accounting structure for SERS' \$24.4 billion Fund; oversees all transactions, including payment of member benefits, purchase and sale of investment securities, receipt of employer and employee contributions and investment income, and administration of the agency operational budget. The office also manages agency operations and disaster recovery planning, while reporting to the Board on management of the approximately \$1.8 billion Commonwealth Deferred Compensation Program.

**Investment Office:** Works closely with the Board to recommend and establish asset allocation, investment policy and investment managers for review and approval by the Board. The office works in tandem with the consultants monitoring the compliance and performance of the outside managers and undertaking research on investment products and investment managers.

**Legal Office:** Provides counsel to the Board and the agency, including handling administrative hearings involving SERS members, reviewing investment and non-investment-related contracts, and providing legal advice.

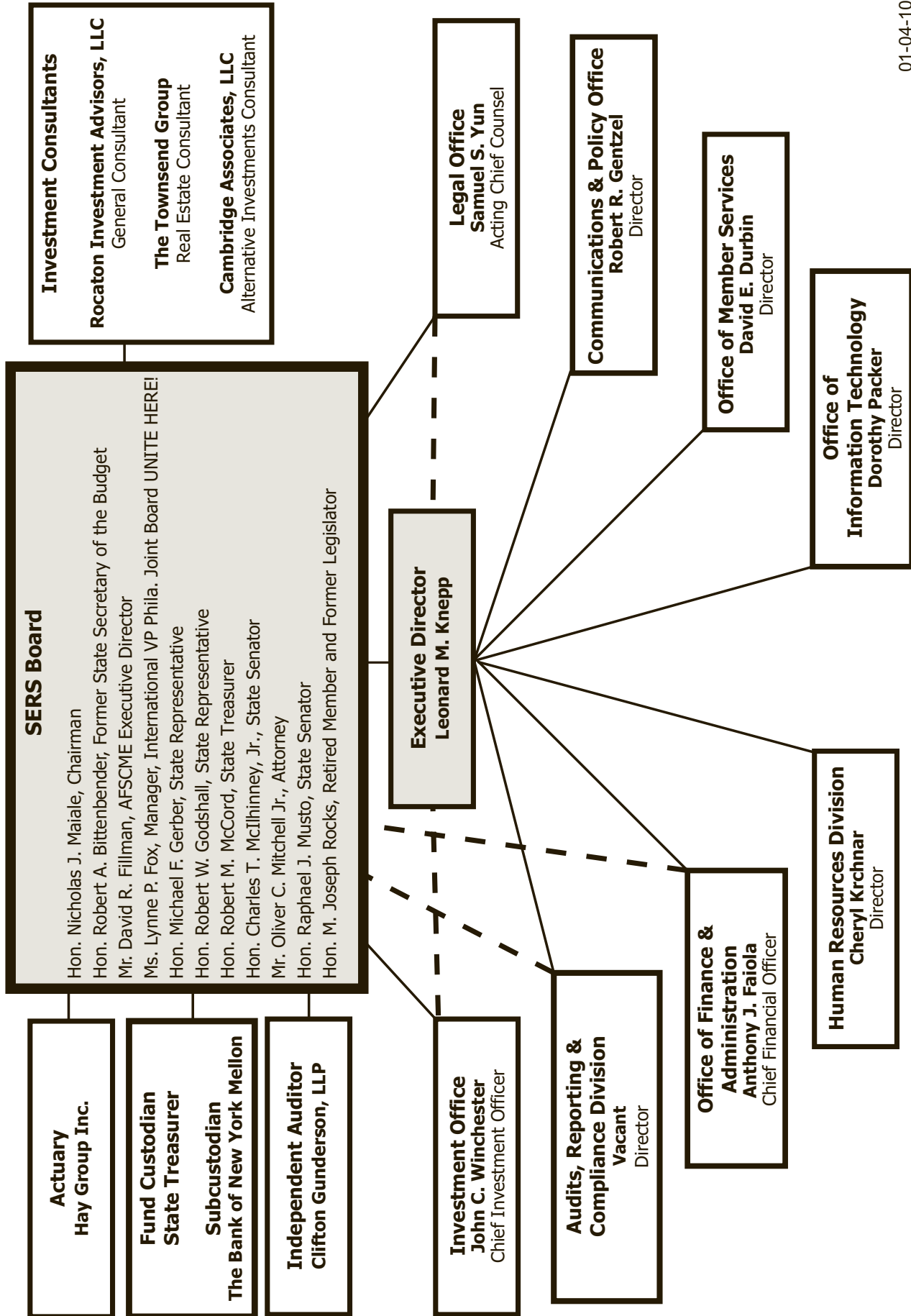
**Audits, Reporting and Compliance Division:** Provides the Board with the assurance that internal controls are adequate and operating as designed through internal audits of business processes. Coordinates audits performed at SERS by external agencies and auditors. Prepares agency financial and investment reports, performs analysis and compliance reviews of investments and other programs.

**Human Resources Division:** Responsible for management, organization and development of SERS' human resources.

**Office of Information Technology:** Provides all computer and technical support for SERS operations, including a Wide Area Network linking the agency's seven Regional Retirement Counseling Centers.

**Office of Member Services:** Provides individualized counseling and retirement-related seminars through SERS' statewide system of seven Regional Retirement Counseling Centers. Processes member and member-survivor benefit payments and provides membership account services. Researches issues in public pension programs, recommends adoption of new strategies, and performs special retirement-related functions.

# SERS Organizational Chart



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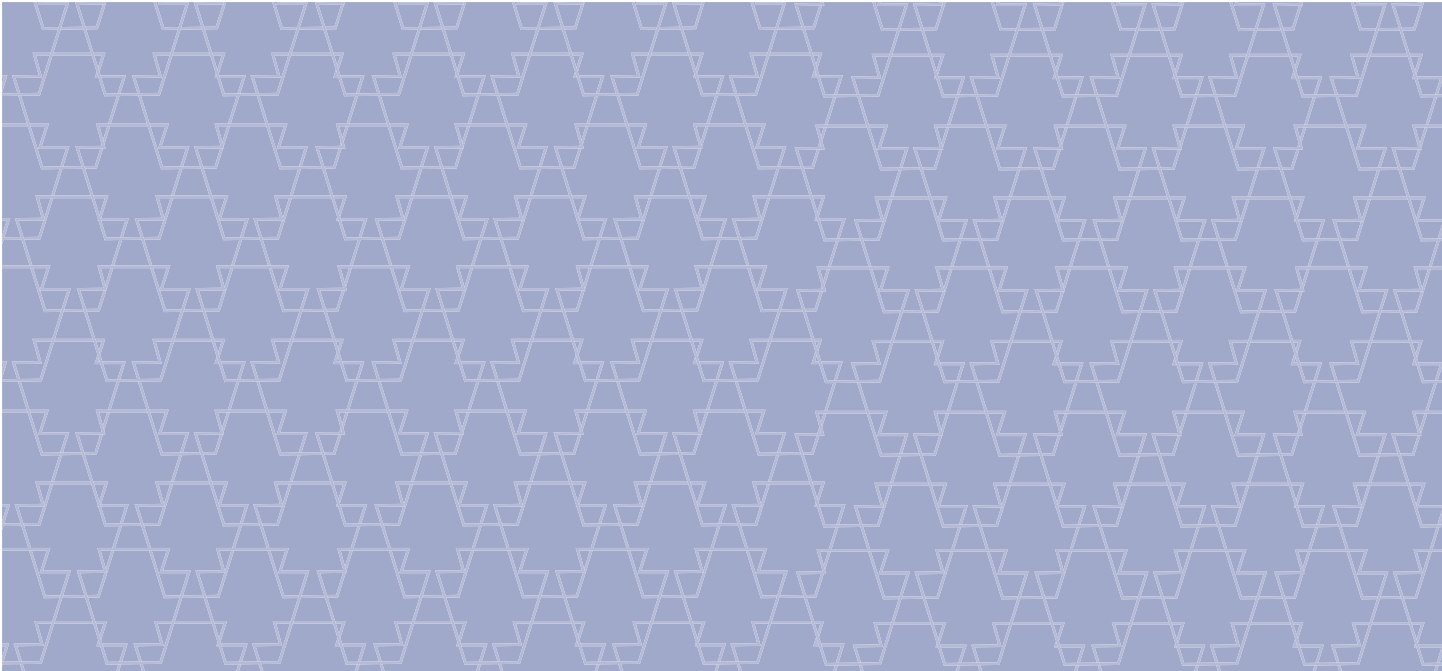
**2010-2011 Budget - Board Submission 2**



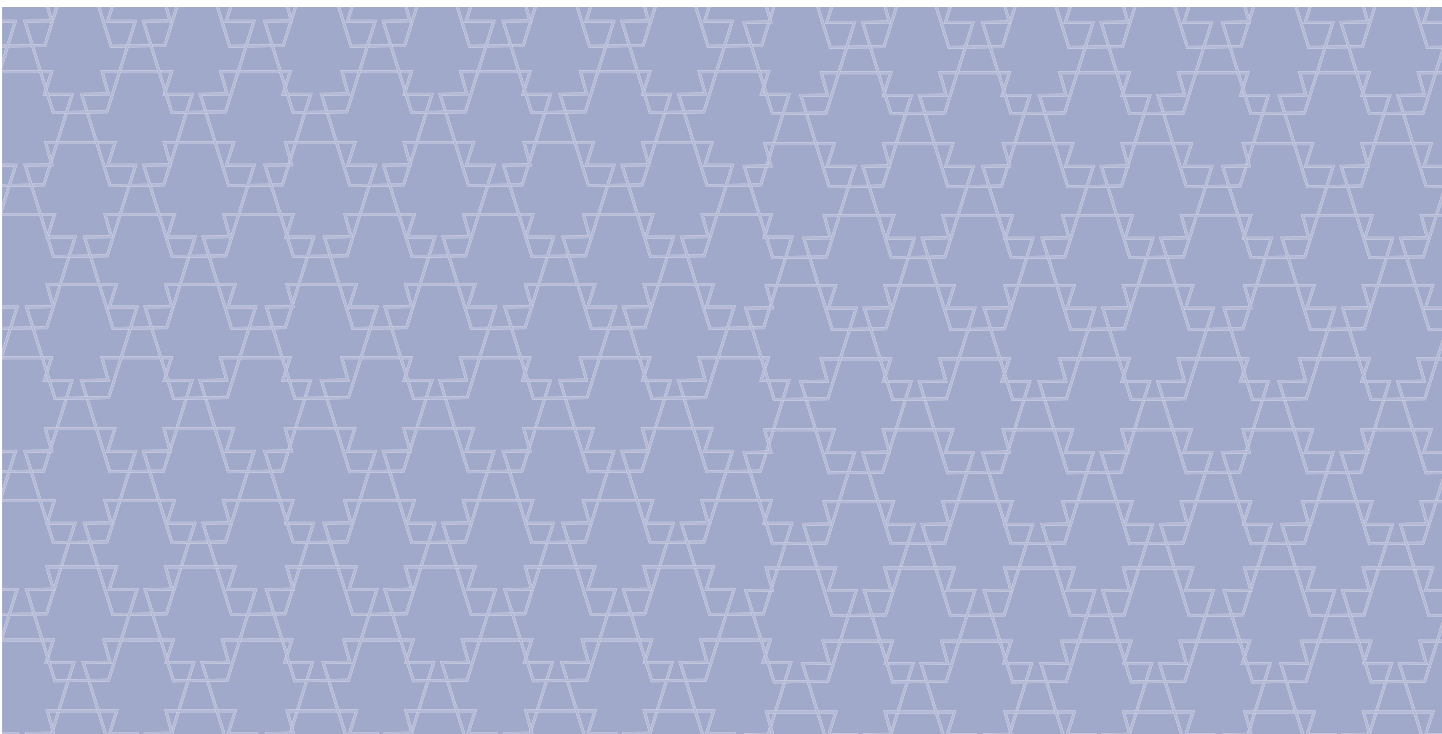


# SERS Budget 2010-2011

	Budget 2006-07	Budget 2007-08	Budget 2008-09	Budget 2009-10	Budget 2010-11
<b>Personnel Services</b>	\$15,600,000	\$16,402,000	\$16,913,000	\$17,191,000	\$17,575,000
<b>Operational Expenses:</b>					
Travel	230,000	220,000	205,000	249,700	224,600
Training	204,700	189,000	165,000	185,400	164,900
Communication Services	279,800	312,000	395,000	397,900	385,800
Telephone/Equipment	5,100	165,000	9,000	0	0
Consultant	2,795,000	2,953,000	3,863,000	3,876,000	3,929,000
Legal Services/Fees	90,000	50,000	52,000	52,000	188,000
Specialized Services	1,369,000	827,000	781,000	711,300	677,400
Advertising	0	4,000	5,000	5,000	5,000
Contracted EDP Services-Vendor Provided	781,000	1,366,000	1,038,000	755,000	1,385,000
Contracted Maintenance & Repairs-Non-EDP	17,700	39,000	48,000	74,200	70,700
EDP	1,145,500	959,000	862,000	1,076,900	765,000
Real Estate	1,605,500	1,545,000	1,611,000	1,630,000	1,690,000
Vehicles	84,700	63,000	54,000	54,000	32,900
Office Equipment	23,100	135,000	215,000	179,300	95,900
Other Rentals/Leases	133,000	139,000	142,000	138,200	135,500
Office Supplies	121,000	52,000	48,000	48,500	87,300
Educational Supplies	1,100	1,000	1,000	1,000	1,000
Other Computer Equipment	346,000	355,000	609,000	619,500	400,000
Motorized Equipment Maintenance	6,600	16,000	16,000	19,900	18,100
Postage	235,500	315,000	320,000	320,000	210,000
Freight	5,000	7,000	8,000	8,800	8,800
Printing	169,000	210,000	210,000	225,500	197,600
Subscriptions & Investment Licensing	20,000	32,000	80,000	199,300	637,500
Membership Dues	60,000	58,000	60,000	66,900	70,400
Conference Expenses	45,000	19,000	8,000	8,500	12,800
Purchasing Card Purchases	208,400	216,000	236,000	224,300	0
Insurance, Surety, & Fidelity Bonds	5,300	5,000	8,000	10,000	12,000
Other Operational Expenses	268,000	844,000	861,000	904,900	882,800
<b>Total Operational Expenses</b>	10,255,000	11,096,000	11,910,000	12,042,000	12,288,000
<b>Fixed Assets</b>	70,000	70,000	25,000	0	0
<b>Less: Directed Commissions Applied to Investment Related Expenses</b>	1,000,000	1,000,000	1,500,000	1,500,000	1,500,000
<b>Total Requested Appropriation</b>	\$24,925,000	\$26,568,000	\$27,348,000	\$27,733,000	\$28,363,000



## Investment Advisory and Consultant Fees 3



# Investment Advisory & Consultant Fees

(unaudited)

## 2009 Advisory Fees

Assets	Fees <sup>1/</sup>	Fees <sup>2/</sup> (in basis points)
Stocks	\$23,852,310	46.0
Fixed Income	15,840,703	56.5
Absolute Return	45,429,259	78.4
Real Estate	28,391,748	121.3
Alternative Investments	134,025,562	166.4
Inflation Protection	4,594,775	32.3
<b>Total Advisory Fees</b>	<b>\$252,134,357</b>	<b>97.0</b>

<sup>1/</sup> Fees paid and accrued by SERS during the period from January 1, 2009, through December 31, 2009, according to SERS records maintained by the Office of Finance and Administration (OFA).

<sup>2/</sup> The fee data from OFA was divided by SERS' total fund and asset class average values during calendar year 2009 to arrive at the basis point calculations. Alternative Investments were determined based on committed capital during the active stage of the partnership, and on market value during the maturity stage of the partnership to most accurately reflect the calculation of fees for those management services.

## Average Basis Points Calendar Years Ended 2005-2009

Calendar Year	Fees (\$ millions)	Basis Points
2005	\$231.2	78.4
2006	286.8	83.5
2007	330.8	86.7
2008	303.8	89.1
2009	252.1	97.0

## 2009 Consultant Fees

Firm	Status	Fees
Cambridge Associates	Alternative Investments	\$1,907,500
Rocaton Investment Advisors	General	509,583
The Hay Group	General	318,814
The Townsend Group	Real Estate	243,850
Institutional Shareholders Services	General	102,500

# Fees to Managers (Non-Budget Appropriation)

(unaudited)

SERS employs outside investment managers because of their investment expertise. The managers of SERS' investment portfolio are paid through non-budget appropriation. Their fees are treated as a reduction of the investment revenue of the Fund, rather than as a direct administrative expense. Thus, when investment performance is reported elsewhere in this book, the numbers reported are net of fees - that is, performance after all investment management fees have been paid.

## 2009 Fees to Managers

### U.S. Stocks

AXA Rosenberg Investment Management	Orinda	CA	\$681,540
BlackRock - Alpha Tilt	San Francisco	CA	385,515
BlackRock Russell 3000 NL	San Francisco	CA	23,700
BlackRock S&P 500 Index NL	San Francisco	CA	121,473
Emerald Advisers	Lancaster	PA	1,009,764
Iridian Asset Management	Westport	CT	707,802
Mellon Equity Associates	Pittsburgh	PA	179,487
NISA Beta-Overlay	St. Louis	MO	2,250,000
NorthPointe Capital	Troy	MI	28,356
Turner Investment Partners	Berwyn	PA	209,272

### Absolute Return

Arden Capital Management	New York	NY	3,423,103
BAAM - Stable Alpha	New York	NY	12,612,577
Mesirow Advanced Strategies Fund	Chicago	IL	9,167,820
Morgan Stanley Alternative Investments Partners	West Conshohocken	PA	4,340,391
Pacific Alternative Asset Management Company	Irvine	CA	11,230,401
Rock Creek	Washington	DC	4,654,967

### Inflation Protection

Blackstone SERS Customized Commodities Fund	New York	NY	1,340,103
NISA Investment Advisors	St. Louis	MO	319,610
Wellington Management Company	Boston	MA	2,935,062

### Non-U.S. Stocks

Artisan Partners	Milwaukee	WI	1,939,171
Bernstein Investment Group	New York	NY	133,167
BlackRock ACWI Ex-U.S. NL	San Francisco	CA	383,573
BlackRock Emerging Markets NL	San Francisco	CA	81,676
BlackRock Investment Management	London	United Kingdom	134,342
Harris Associates	Chicago	IL	1,286,281
Morgan Stanley - EAFE	London	United Kingdom	1,214,320
Oaktree Cap Mgmt Emerging Markets - Feeder Fund	Los Angeles	CA	2,756,345
Pictet International Management - Small Capital	London	United Kingdom	556,794
Pictet International Management - Emerging Markets	London	United Kingdom	559,821
Rexiter Capital Management	Boston	MA	1,064,591

# Fees to Managers

(Non-U.S. Stocks, continued)

Templeton Investment Counsel	Fort Lauderdale	FL	\$1,052,356
Templeton Strategic Emerging Markets Fund II	Fort Lauderdale	FL	1,164,344
Templeton Strategic Emerging Markets Fund III	Fort Lauderdale	FL	1,915,772
Templeton TIFI Emerging Market	Fort Lauderdale	FL	110,205

## Global Stocks

Marathon London Global Fund	London	United Kingdom	2,259,333
Walter Scott & Partners	Edinburgh	United Kingdom	1,643,310

## Fixed Income

Ashmore Emerging Markets Debt Fund	London	United Kingdom	918,366
Ashmore Emerging Markets Local Currency Fund	London	United Kingdom	1,687,027
Berwind Financial Group	Philadelphia	PA	127,936
Gramercy Advisors	Greenwich	CT	710,432
Greylock Capital Management	New York	NY	4,584,539
NISA Custom TIPS Intermediate	St. Louis	MO	561,861
Oaktree Cap Mgmt Mezzanine Fund	Los Angeles	CA	293,212
Pacific Investment Management Company	Newport Beach	CA	849,466
Pyramis Global Advisors Trust Company	Smithfield	RI	1,413,291
SEI Structured Credit Fund	Oaks	PA	425,389
Standish Mellon	Pittsburgh	PA	92,692
Stone Harbor Investment Partners - Emerging Market Debt	New York	NY	1,056,792
Stone Harbor Investment Partners - High Yield	New York	NY	1,948,102
Taplin, Canida & Habacht	Miami	FL	289,948
W.R. Huff Asset Management Company	Morristown	NJ	881,650

## Real Estate

AG Asia Realty Fund	New York	NY	364,953
Blackstone Real Estate Partners III	New York	NY	11,403
Blackstone Real Estate Partners IV	New York	NY	309,327
Blackstone Real Estate Partners V	New York	NY	553,689
Blackstone Real Estate Partners VI	New York	NY	1,125,000
BPG Investment Partnership V	Yardley	PA	77,972
BPG Investment Partnership VI	Yardley	PA	128,483
BPG Investment Partnership VII	Yardley	PA	375,050
BPG Investment Partnership VIII	Yardley	PA	375,115
Clerestory Small Cap Real Estate Fund I	New York	NY	176,541
Colony Investors VIII	Los Angeles	CA	337,511
Fidelity Real Estate Opportunistic Income Fund	Smithfield	RI	147,240
Fillmore East Fund	San Francisco	CA	457,009
Fillmore West Fund	San Francisco	CA	373,295
Forest Investment Associates	Atlanta	GA	1,319,749
Goldman Sachs/Whitehall VII & VIII	New York	NY	4,511
Grosvenor Investment Management	Philadelphia	PA	3,692,442
Grosvenor Residential Investment Partners I	Philadelphia	PA	35,597

# Fees to Managers

(Real Estate, continued)

Heitman America Real Estate Trust	Chicago	IL	\$216,134
Heitman Capital Management	Chicago	IL	1,173,857
ING Clarion Real Estate Securities	Radnor	PA	842,248
LaSalle Investment Management	Baltimore	MD	2,870,323
Lowe Enterprises Investment Management	Los Angeles	CA	2,774,399
Lubert Adler Real Estate Fund II	Philadelphia	PA	8,900
Lubert Adler Real Estate Fund V	Philadelphia	PA	900,000
Lubert-Adler Real Estate Fund VI	Philadelphia	PA	343,163
Oaktree Cap Mgmt Real Estate Opportunities Fund III	New York	NY	97,826
Oxford Fund	Pittsburgh	PA	450,000
Prudential Latin America Retail Fund I	Parsippany	NJ	405,199
Prudential Latin America Residential Fund III	Parsippany	NJ	327,226
Prudential Senior Housing Partners II	Parsippany	NJ	67,937
Prudential Senior Housing Partners III	Parsippany	NJ	358,718
Rockpoint Finance Fund I	Dallas	TX	703,659
Rockpoint Real Estate Fund I	Dallas	TX	88,404
Rockpoint Real Estate Fund II	Dallas	TX	371,642
Rockpoint Real Estate Fund III	Dallas	TX	750,000
Scout Fund I-A	Dallas	TX	593,605
Sentinel Real Estate Corporation	New York	NY	488,809
Starwood Global Opportunity Fund IV	Greenwich	CT	34,265
Starwood Global Opportunity Fund V	Greenwich	CT	65,521
Starwood Global Opportunity Fund VI	Greenwich	CT	628,314
Starwood Global Opportunity Fund VII	Greenwich	CT	433,918
Starwood Global Opportunity Fund VIII	Greenwich	CT	958,900
UBS Trumbull Property Income Fund	Hartford	CT	537,146
UBS Trumbull Property Fund	Hartford	CT	505,310
Urdang Securities Management	Plymouth Meeting	PA	151,341
Westbrook Real Estate Fund III	Dallas	TX	12,288
Westbrook Real Estate Fund IV	Dallas	TX	53,263
Westbrook Real Estate Fund V	Dallas	TX	129,900
Westbrook Real Estate Fund VI	Dallas	TX	366,977
Westbrook Real Estate Fund VII	Dallas	TX	723,942
Westbrook Real Estate Fund VIII	Dallas	TX	93,727

## Venture Capital

Abingworth Bioventures IV	London	United Kingdom	387,771
Abingworth Bioventures V	London	United Kingdom	532,195
ABS Capital Partners VI	Baltimore	MD	518,513
Adams Capital Management II	Sewickley	PA	401,641
Adams Capital Management III	Sewickley	PA	585,550
Advanced Technology Ventures VI	Waltham	MA	114,818
Advanced Technology Ventures VII	Waltham	MA	452,569
Alloy Ventures 2000	Palo Alto	CA	118,832
Alloy Ventures 2002	Palo Alto	CA	1,362,737
Alloy Ventures 2005	Palo Alto	CA	663,059

# Fees to Managers

(Venture Capital, continued)

APAX Excelsior VI	New York	NY	\$325,469
Apex Investment Partners Fund V	Chicago	IL	328,325
Artiman Ventures II	Palo Alto	CA	676,608
Atlas Venture Fund IV	Waltham	MA	109,222
Atlas Venture Fund V	Waltham	MA	475,485
Atlas Venture Fund VI	Waltham	MA	68,167
Austin Ventures VIII	Austin	TX	319,251
Austin Ventures IX	Austin	TX	332,380
Battery Ventures VIII	Waltham	MA	625,000
Birchmere Ventures Fund III	Pittsburgh	PA	251,033
Care Capital Investments III	Princeton	NJ	333,933
Charles River Partnership XI	Waltham	MA	204,441
CID Greater China Venture Capital Fund II	Taipei	Taiwan	501,424
Clearstone Venture Partners III	Santa Monica	CA	781,350
Cross Atlantic Technology I	Radnor	PA	40,947
Devon Park Bioventures	Wayne	PA	393,303
Draper Fisher Jurveston VII	Menlo Park	CA	210,000
Draper Triangle Ventures I	Pittsburgh	PA	350,000
Draper Triangle Ventures II	Pittsburgh	PA	240,000
Fairview Capital II	Farmington	CT	24,822
Frazier Healthcare III	Seattle	WA	254,086
Frazier Healthcare IV	Seattle	WA	315,215
Frazier Healthcare V	Seattle	WA	505,667
Grotech Partners V	Timonium	MD	458,332
Guggenheim Technology Ventures I	King of Prussia	PA	23,949
Halpern Denny Fund III	Boston	MA	222,812
HarbourVest Partners VI	Boston	MA	1,710,000
HarbourVest Partners VII	Boston	MA	750,000
HarbourVest Partners VIII	Boston	MA	998,634
Healthcare Ventures VI	Princeton	NJ	669,915
Healthcare Ventures VII	Princeton	NJ	688,919
Healthcare Ventures VIII	Princeton	NJ	628,064
Highland Capital Partners VI	Lexington	MA	552,282
Highland Capital Partners VII	Lexington	MA	870,639
Highland Consumer Fund I	Lexington	MA	621,666
I.P. - Fund II	Bellevue	WA	100,577
I.P. - Fund III	Bellevue	WA	310,202
I.P. - Fund IV	Bellevue	WA	84,223
InterWest Partners VIII	Menlo Park	CA	388,744
InterWest Partners IX	Menlo Park	CA	498,742
InterWest Partners X	Menlo Park	CA	764,287
J.P. Morgan Venture Capital Institutional Investors I	New York	NY	764,939
J.P. Morgan Venture Capital Institutional Investors II	New York	NY	912,121
J.P. Morgan Venture Capital Institutional Investors III	New York	NY	1,041,900
JMI Equity Fund V	Baltimore	MD	298,353
JMI Equity Fund VI	Baltimore	MD	978,185



# Fees to Managers

(Venture Capital, continued)

Kline Hawkes Pacific	Los Angeles	CA	\$95,191
Knightsbridge Venture Capital VI	Bartlesville	OK	140,000
Lightspeed Venture Partners VII	Menlo Park	CA	570,933
Lightspeed Venture Partners VIII	Menlo Park	CA	397,525
Meritech Capital Partners II	Palo Alto	CA	132,382
Meritech Capital Partners III	Palo Alto	CA	787,525
Mid-Atlantic Venture Fund IV	Bethlehem	PA	213,147
Morgenthaler Venture Partners VII	Menlo Park	CA	553,776
Morgenthaler Venture Partners VIII	Menlo Park	CA	458,564
Morgenthaler Venture Partners IX	Menlo Park	CA	199,754
New Enterprise Associates VII	Baltimore	MD	33,889
New Enterprise Associates IX	Baltimore	MD	142,815
New Enterprise Associates X	Baltimore	MD	237,499
New Enterprise Associates 11	Baltimore	MD	176,018
New Enterprise Associates 12	Baltimore	MD	399,109
Newspring Ventures II	King of Prussia	PA	200,000
Novitas III	King of Prussia	PA	108,439
Novo Vita	Radnor	PA	15,971
Oak Investment Partners XI	Westport	CT	708,372
Oak Investment Partners XII	Westport	CT	800,000
Pitango Venture Capital Fund IV	Herzliya	Israel	396,071
Pitango Venture Capital Fund V	Herzliya	Israel	675,050
Polaris Venture Partners III	Waltham	MA	822,753
Polaris Venture Partners IV	Waltham	MA	1,092,114
Polaris Venture Partners V	Waltham	MA	1,355,556
Quaker BioVentures I	Philadelphia	PA	469,558
Quaker BioVentures II	Philadelphia	PA	613,301
Sofinnova Venture Partners VII	San Francisco	CA	254,071
Summit Accelerator	Boston	MA	158,469
Summit Partners Venture Capital Fund II	Boston	MA	380,484
Summit Ventures V	Boston	MA	143,749
TA Associates - Advent VIII	Boston	MA	3,388
Technology Leaders IV	Wayne	PA	103,732
Technology Leaders V	Wayne	PA	298,333
Three Arch Capital Partners I	Portola Valley	CA	345,249
Three Arch Capital Partners IV	Portola Valley	CA	497,645
U.S. Venture Partners VII	Menlo Park	CA	98,624
U.S. Venture Partners VIII	Menlo Park	CA	336,861
Weathergage Venture Capital	San Francisco	CA	250,000
Weston Presidio Capital III	Boston	MA	174,850
Weston Presidio Capital IV	Boston	MA	393,725
Weston Presidio Capital V	Boston	MA	1,016,737
Whitney Equity Partners III	Stamford	CT	150,000
Whitney Equity Partners IV	Stamford	CT	150,000
Worldview Technology Partners IV	San Mateo	CA	249,671

# Fees to Managers

## Private Equity

ABRY Advanced Securities Fund I	Boston	MA	\$482,984
ABRY Broadcast Partners III	Boston	MA	141,262
ABRY Broadcast Partners IV	Boston	MA	155,534
ABRY Broadcast Partners V	Boston	MA	446,884
ABRY Mezzanine Partners	Boston	MA	141,933
ABRY Partners VI	Boston	MA	994,043
ABRY Senior Equity II	Boston	MA	473,374
ABS Capital Partners III	Baltimore	MD	462,601
ABS Capital Partners IV	Baltimore	MD	408,042
ABS Capital Partners V	Baltimore	MD	422,694
Accel Europe	London	United Kingdom	337,475
Advent International Global Private Equity VI	Boston	MA	496,316
Advent Latin American Private Equity Fund IV	Boston	MA	603,870
AG Capital Recovery Partners II	New York	NY	4,340
AG Capital Recovery Partners IV	New York	NY	11,044
AG Capital Recovery Partners V	New York	NY	238,340
Alpha Private Equity Fund 4	Paris	France	189,885
Alpha Private Equity Fund 5	Paris	France	2,031,275
APAX Europe Fund IV	London	United Kingdom	99,569
APAX Europe Fund V	London	United Kingdom	900,414
APAX Europe VI-A	London	United Kingdom	856,531
APAX Europe VII-A	London	United Kingdom	1,521,775
Apollo Investment Fund IV	New York	NY	28,706
Apollo Investment Fund VI	New York	NY	44,265
Asia Alternative Capital Partners	San Francisco	CA	120,922
Asia Alternative Capital Partners II	San Francisco	CA	273,481
Asia Pacific Associates III	San Francisco	CA	51,113
Audax Private Equity Fund I	Boston	MA	355,943
Audax Private Equity Fund II	Boston	MA	661,936
Audax Private Equity Fund III	Boston	MA	618,888
Avenue Asia Special Situations Fund IV	New York	NY	999,996
Avenue Europe Special Situations Fund	New York	NY	615,283
Avenue Special Situations Fund IV	New York	NY	518,722
Avenue Special Situations Fund V	New York	NY	1,050,000
AXA Secondary Fund III-1	Paris	France	221,000
AXA Secondary Fund III-2	Paris	France	119,000
AXA Secondary Fund IV	Jersey	Channel Islands	777,693
Bain Capital Asia Fund	Boston	MA	400,203
Bain Capital Europe Fund III	Boston	MA	1,542,288
Bain Capital Fund VII	Boston	MA	240,513
Bain Capital Fund VIII	Boston	MA	402,174
Bain Capital Fund IX	Boston	MA	1,196,352
Bain Capital Fund IX Coinvestment Fund	Boston	MA	241,502
Bain Capital Fund X	Boston	MA	1,838,650
Bain Capital Fund X Coinvestment Fund	Boston	MA	6,188

# Fees to Managers

(Private Equity, continued)

Baring India Private Equity Fund III	Port Lewis	Mauritius	\$200,696
Baring Vostok Private Equity Fund IV	Guernsey	Channel Islands	391,800
BC European Capital VII	London	United Kingdom	240,277
BC European Capital VII - Top Up	London	United Kingdom	122,869
BC European Capital VIII	London	United Kingdom	902,375
Berkshire Fund VI	Boston	MA	287,565
Berkshire Fund VII	Boston	MA	903,748
Blackstone Capital Partners III	New York	NY	75,220
Blackstone Capital Partners V	New York	NY	1,003,274
Blackstone Communications Partners I	New York	NY	60,590
Brait IV	Grand Cayman	Cayman Islands	486,092
Brynwood Partners V	Greenwich	CT	203,232
Brynwood Partners VI	Greenwich	CT	240,115
Centerbridge Capital Partners	New York	NY	6,508
Cerberus Institutional Partners Series One	New York	NY	14,879
Cerberus Institutional Partners Series Two	New York	NY	62,932
Cerberus Institutional Partners Series Three	New York	NY	238,477
Cerberus Institutional Partners Series Four	New York	NY	1,125,000
Charterhouse Capital Partners VII	London	United Kingdom	150,766
Charterhouse Capital Partners VIII	London	United Kingdom	397,917
Charterhouse Capital Partners IX	London	United Kingdom	987,737
Chequers Capital XV	Paris	France	685,389
Clayton, Dubilier & Rice VI	New York	NY	39,514
Clessidra Capital Partners II	Milan	Italy	365,652
Code, Hennessy & Simmons IV	Chicago	IL	256,368
Cognetas II	London	United Kingdom	598,920
CVI Global Value Fund	Grand Cayman	Cayman Islands	871,864
DLJ Merchant Banking II	New York	NY	246,058
DLJ Merchant Banking III	New York	NY	236,756
Dover Street VII	Boston	MA	132,011
Elevation Partners	Menlo Park	CA	525,000
Energy Spectrum Partners IV	Dallas	TX	588,267
Energy Spectrum Partners V	Dallas	TX	600,000
Eureka II	Yardley	PA	383,461
Excelsior Capital Asia Partners III	Hong Kong	China	500,000
First Reserve Fund X	Greenwich	CT	126,356
First Reserve Fund XI	Greenwich	CT	372,826
First Reserve Fund XII	Greenwich	CT	239,770
Francisco Partners	San Francisco	CA	202,753
Francisco Partners II	San Francisco	CA	86,500
Frontenac Company Fund VII	Chicago	IL	1,440,000
Great Hill Equity Partners II	Boston	MA	472,471
Great Hill Equity Partners III	Boston	MA	580,267
Great Hill Equity Partners IV	Boston	MA	246,469
Gryphon Partners II	San Francisco	CA	59,100
Gryphon Partners III	San Francisco	CA	165,439

# Fees to Managers

(Private Equity, continued)

GTCR Fund V	Chicago	IL	\$8,660
GTCR Fund VII	Chicago	IL	383,346
GTCR Fund VIII	Chicago	IL	917,084
GTCR Fund IX	Chicago	IL	802,040
H.I.G. Bayside Debt & LBO Fund II	Miami	FL	322,872
HarbourVest International II	Boston	MA	52,365
HarbourVest International Private Equity III	Boston	MA	236,157
HarbourVest International Private Equity IV	Boston	MA	400,000
HIPEP V-Asia Pacific and Rest of World Partnership Fund	Boston	MA	300,000
Hellman & Friedman Capital Partners IV	San Francisco	CA	8,646
Hellman & Friedman Capital Partners V	San Francisco	CA	1,629,283
Hellman & Friedman Capital Partners VI	San Francisco	CA	1,464,843
Insight Venture Partners VI	New York	NY	529,140
InterMedia Partners VII	New York	NY	262,500
Invemed Catalyst Fund	New York	NY	26,300
J.H. Whitney Fund V	Stamford	CT	244,343
J.H. Whitney Fund VI	Stamford	CT	728,463
J.P. Morgan U. S. Corporate Financial Institutional Investors II	New York	NY	423,729
J.W. Childs Equity Partners III	Boston	MA	191,135
Kelso Investment Associates VII	New York	NY	191,400
Kelso Investment Associates VIII	New York	NY	2,250,000
Leeds Weld Equity Partners IV	New York	NY	64,022
Lexington Capital Partners II	New York	NY	38,045
Lexington Capital Partners III	New York	NY	33,804
Lexington Capital Partners V	New York	NY	310,744
Lexington Capital Partners VI	New York	NY	341,896
Lime Rock Partners III	Westport	CT	228,748
Lime Rock Partners IV	Westport	CT	366,678
Lime Rock Partners V	Westport	CT	850,000
Lime Rock Resources C	Westport	CT	400,000
LLR Equity Partners	Philadelphia	PA	101,987
LLR Equity Partners II	Philadelphia	PA	183,930
LLR Equity Partners III	Philadelphia	PA	598,767
Madison Dearborn Capital Partners IV	Chicago	IL	382,196
Madison Dearborn Capital Partners V	Chicago	IL	510,371
Madison Dearborn Capital Partners VI	Chicago	IL	680,241
Matlin Patterson Global Opportunities Partners	New York	NY	64,505
Media Communications Partners V	Boston	MA	254,541
Meridian Venture Partners II	Radnor	PA	492,748
New York Life Capital Partners III	New York	NY	502,552
New York Life Capital Partners IV	New York	NY	1,000,000
Newbridge Asia III	San Francisco	CA	107,336
Newbridge Asia IV	San Francisco	CA	287,758
Nordic Capital V	Stockholm	Sweden	556,014
Nordic Capital VI	Stockholm	Sweden	517,904
Nordic Capital VII	Stockholm	Sweden	1,441,453

# Fees to Managers

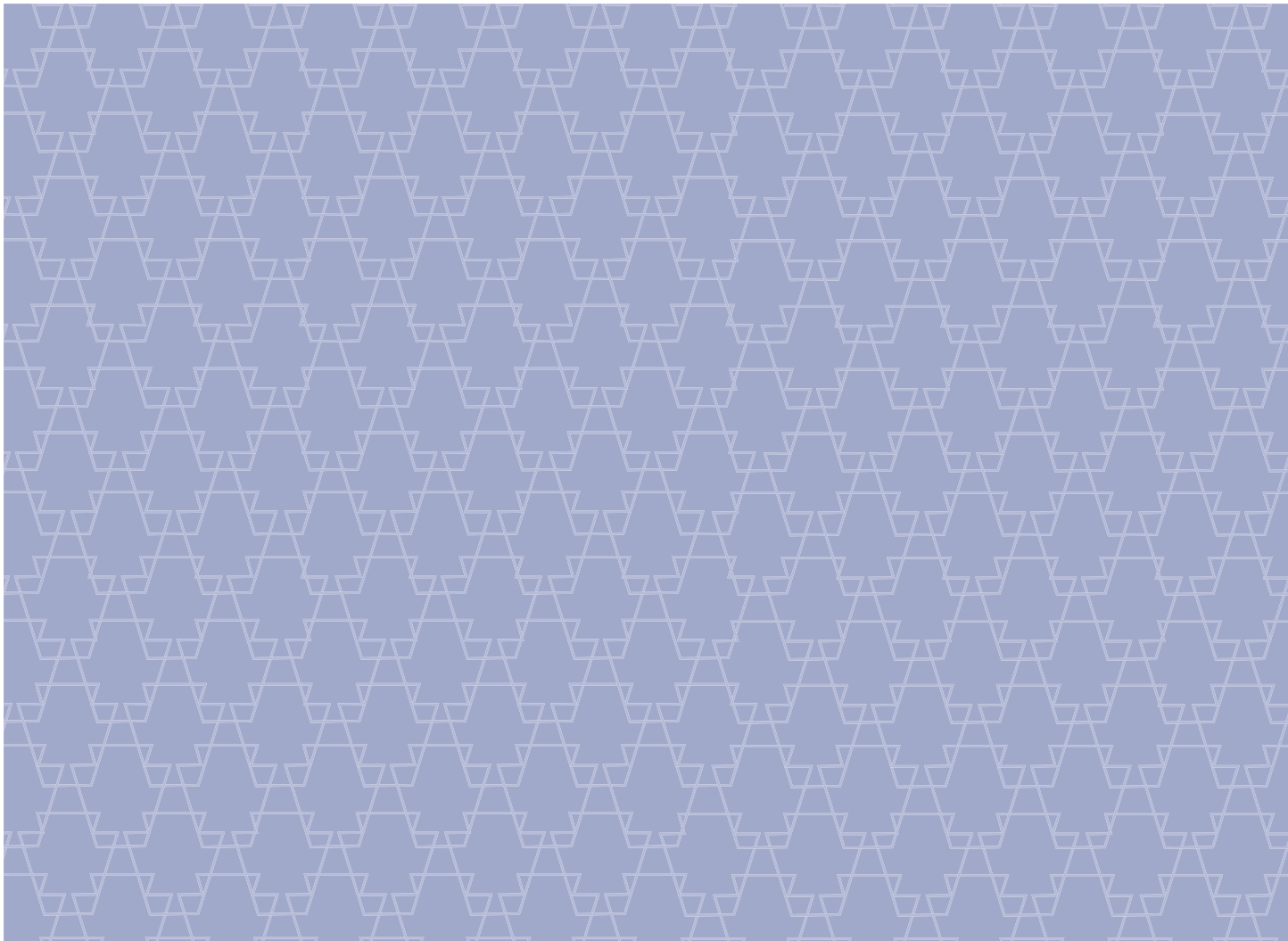
(Private Equity, continued)

Oak Hill Capital Partners I	Menlo Park	CA	\$80,472
Oaktree Cap Mgmt Opportunities Fund I	Los Angeles	CA	57,392
Oaktree Cap Mgmt Opportunities Fund IV	Los Angeles	CA	9,745
Oaktree Cap Mgmt Opportunities Fund V	Los Angeles	CA	239,100
Oaktree Cap Mgmt Opportunities Fund VI	Los Angeles	CA	493,948
Oaktree Cap Mgmt Opportunities Fund VII	Los Angeles	CA	670,973
Oaktree Cap Mgmt Opportunities Fund VIIIb	Los Angeles	CA	623,207
Oaktree Cap Mgmt Principal Opportunities Fund II	Los Angeles	CA	80,305
Oaktree Cap Mgmt Principal Opportunities Fund IV	Los Angeles	CA	284,469
Oaktree Cap Mgmt/GFI Power Opportunities Fund II	Los Angeles	CA	366,068
Palamon European Equity II	London	United Kingdom	826,166
Parthenon Investors II	Boston	MA	227,664
Patriot Financial Partners	Philadelphia	PA	761,756
Permira European Fund I	London	United Kingdom	3,697
Permira European Fund II	London	United Kingdom	330,661
Permira European Fund III	London	United Kingdom	909,783
Permira IV	London	United Kingdom	4,242,712
PNC Equity Partners II	Pittsburgh	PA	102,306
Providence Equity Offshore Partners V	Providence	RI	27,252
Providence Equity Partners VI	Providence	RI	474,415
Sankaty Credit Opportunities III	Boston	MA	1,009,442
Sankaty Credit Opportunities IV	Boston	MA	211,469
SB Energy Partners I-B	Denver	CO	495,971
SCP Private Equity Partners II	Wayne	PA	249,533
Segulah IV	Jersey	Channel Islands	237,529
ShoreView Capital Partners	Minneapolis	MN	222,697
ShoreView Capital Partners II	Minneapolis	MN	738,380
Siguler Guff BRIC Opportunities Fund	New York	NY	95,925
Siguler Guff BRIC Opportunities Fund II	New York	NY	244,867
Sterling Capital Partners	Northbrook	IL	100,841
Sterling Capital Partners II	Northbrook	IL	675,255
Sterling Capital Partners III	Northbrook	IL	693,516
Summit Partners Private Equity Fund VI	Boston	MA	930,875
Summit Partners Private Equity Fund VII	Boston	MA	2,528,971
TA IX	Boston	MA	557,373
TA X	Boston	MA	1,750,009
Thomas H. Lee Equity Fund V	Boston	MA	38,408
Thomas H. Lee Equity Fund VI	Boston	MA	502,710
TPG Asia V	Fort Worth	TX	352,371
TPG Partners II	Fort Worth	TX	3,211
TPG Partners V	Fort Worth	TX	419,035
TPG Partners VI	Fort Worth	TX	581,919
UMS Partners Fund I	Philadelphia	PA	57,884
Versa Capital Management	Philadelphia	PA	125,904
Versa Capital Fund II	Philadelphia	PA	310,793

# Fees to Managers

*(Private Equity, continued)*

Vestar Capital Partners III	New York	NY	\$20,475
Vestar Capital Partners IV	New York	NY	427,101
Vestar Capital Partners V	New York	NY	662,173
W Capital Partners II	New York	NY	749,341
Yucaipa American Alliance Fund II	Los Angeles	CA	720,466
<b>Total Fees to Managers</b>			<b>\$252,134,357</b>



**Directed Commissions 4**



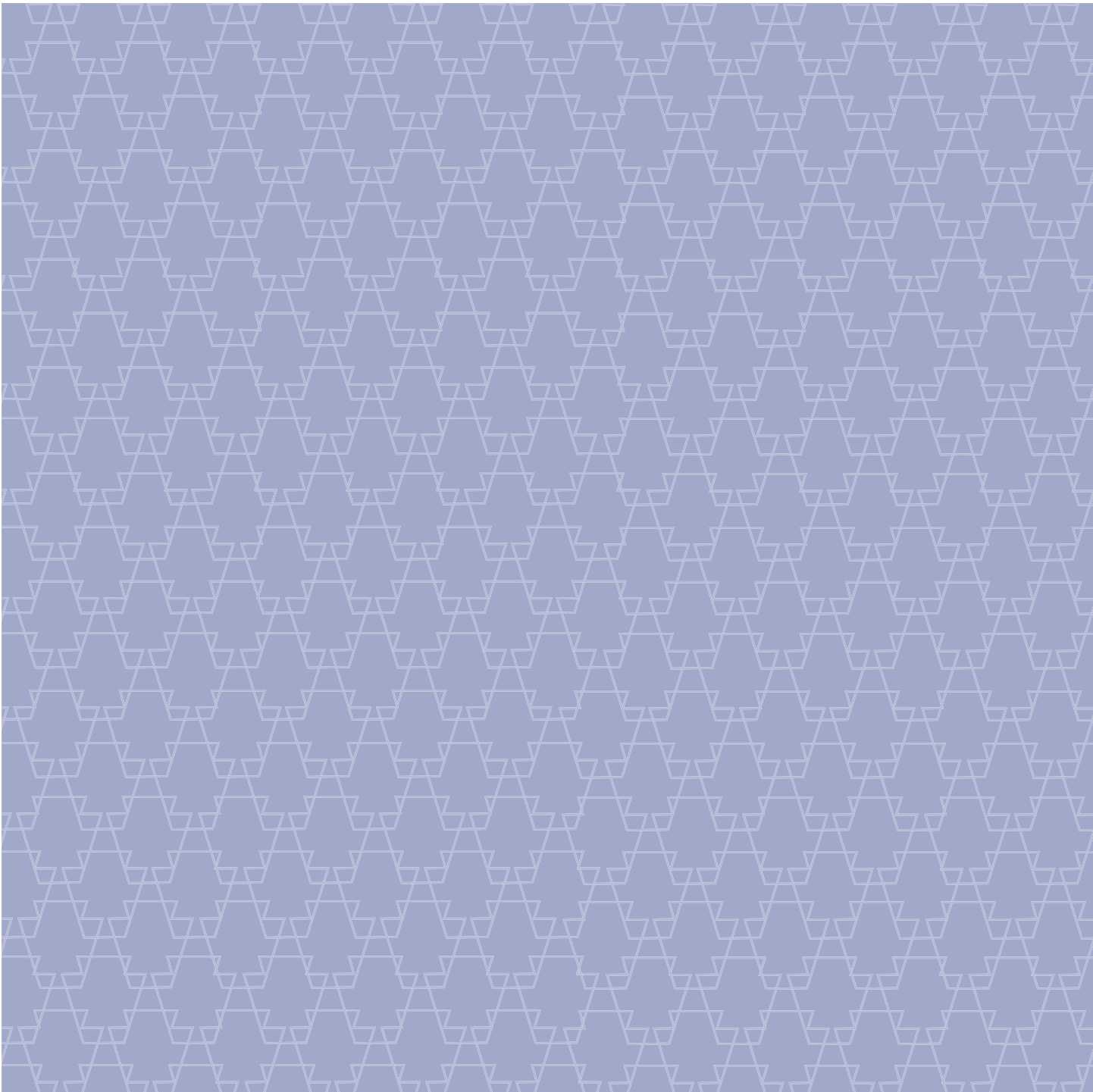


# Directed Commissions

(unaudited)

## Directed Commissions

	<b>FY 2009-10 Budget</b>	<b>FY 2010-11 Budget</b>
Beginning Balance	\$3,673,755	\$2,573,755
Directed Commissions	400,000	400,000
<b>Total Available</b>	<b>4,073,755</b>	<b>2,973,755</b>
Investment Related Expenses	1,500,000	1,500,000
<b>Ending Balance</b>	<b>\$2,573,755</b>	<b>\$1,473,755</b>



# Member Services

The Bureau of Member Services provides a variety of services to SERS active members and annuitants. Following are lists of services provided through the seven Regional Retirement Counseling Centers.

## Services to Active Members

- Calculate regular retirement, disability retirement and vesting estimates upon request.
- Provide one-on-one counseling for any member who is considering retiring or terminating service.
- Provide active members with an annual *Member Statement of Account*.
- Provide counseling to deceased members' Beneficiaries or Survivor Annuitants.
- Conduct group information sessions (Question & Answer Sessions, Pre-Retirement and Vestee Seminars).
- Provide resource speakers for various agency or association information sessions.
- Provide estimates and counsel members on the purchase of creditable State and nonstate service.
- Provide information on members' eligibility for retiree health benefits.

## Services to Retired Members

- Provide direct deposit forms, federal income tax withholding forms, and change of address forms upon request; and provide information and assistance to complete the forms.
- Provide beneficiary forms and assist members in completing the forms.
- Provide all Annuitants with an annual *Personal Statement of Retirement Benefits*.
- Provide all Annuitants with a *1099-R* federal tax form each tax year.
- Take information and process change of dependent information on the retiree's Retired Employees Health Program (REHP) coverage.
- Investigate and place stop payment transactions on checks not received by Annuitants after 10 working days.
- Provide resource speakers for group or association informational seminars.
- Receive and process notifications of death and serve as a contact for Beneficiaries and Survivors.
- Provide option change counseling for members when their Designated Survivor predeceases them, the retiree obtains a divorce, or when the retiree marries after the date of their retirement.
- Provide counseling on any change of monthly annuity payment, when applicable.

## Regional Retirement Counseling Centers

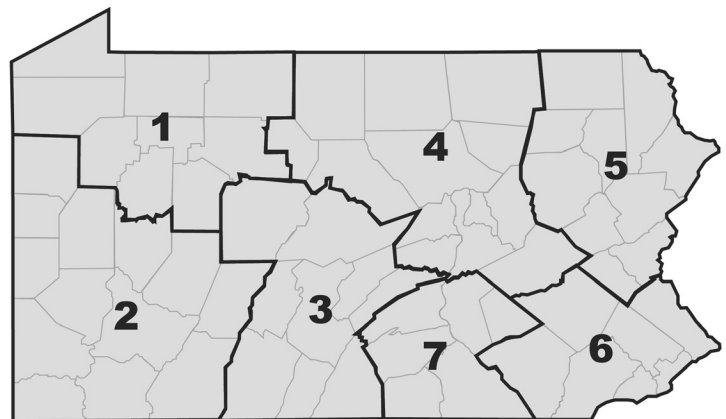
**Region 1 Seneca Office** Serving Clarion, Crawford, Elk, Erie, Forest, Jefferson, McKean, Venango and Warren counties.

**Region 2 Pittsburgh Office** Serving Allegheny, Armstrong, Beaver, Butler, Cambria, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Washington and Westmoreland counties.

**Region 3 State College Office** Serving Bedford, Blair, Centre, Clearfield, Franklin, Fulton, Huntingdon, Juniata, Mifflin counties, and active members who are employees of Shippensburg University of Pennsylvania in Cumberland County.

**Region 4 Montoursville Office** Serving Bradford, Cameron, Clinton, Columbia, Lycoming, Montour, Northumberland, Potter, Schuylkill, Snyder, Sullivan, Tioga and Union counties.

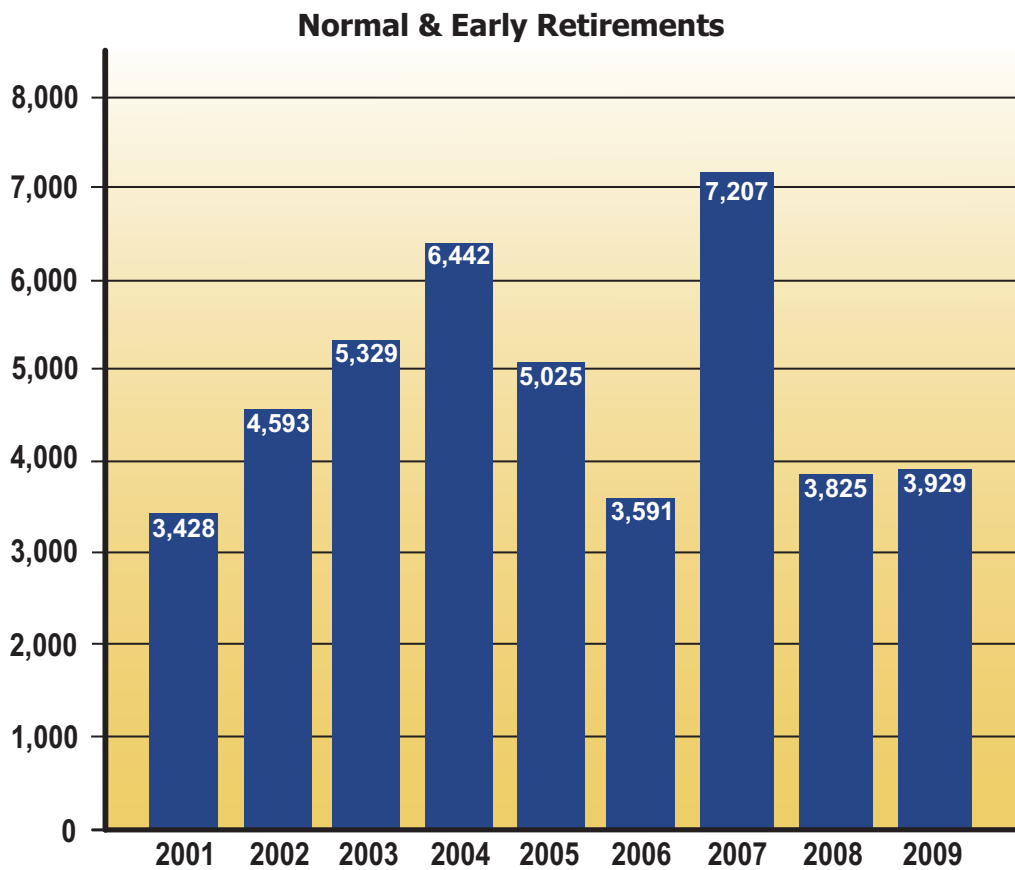
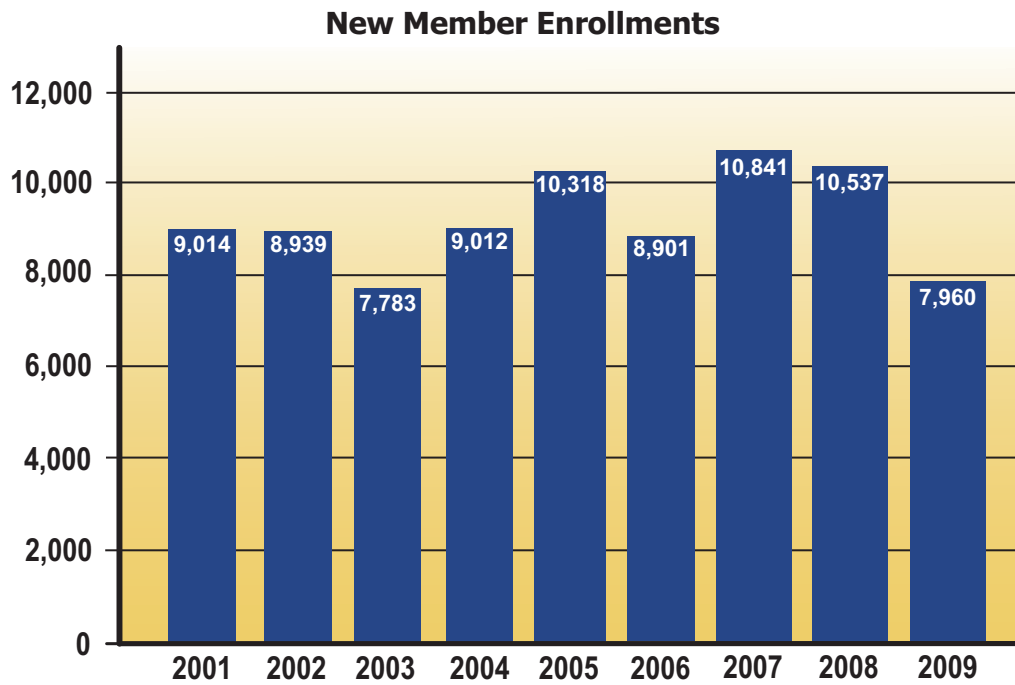
**Region 5 Hazleton Office** Serving Carbon, Lackawanna, Lehigh, Luzerne, Monroe, Northampton, Pike, Susquehanna, Wayne and Wyoming counties.



**Region 6 Bensalem Office** Serving Berks, Bucks, Chester, Delaware, Lancaster and Montgomery counties and Philadelphia.

**Region 7 Harrisburg Office** Serving Adams, Cumberland (except active members who are employees of Shippensburg University of Pennsylvania), Dauphin, Lebanon, Perry and York counties.

# Benefit Processing



# SERS Member Demographics

Year Ending December 31	Membership		
	Total Members	Active Employees	Annuitants & Beneficiaries
2009	220,097	110,458	109,639
2008	219,012	110,866	108,146
2007	216,740	109,610	107,130
2006	213,032	110,972	102,060
2005	211,160	109,981	101,179
2004	207,132	108,405	98,727
2003	203,430	109,018	94,412
2002	202,287	111,059	91,228
2001	198,933	109,716	89,217
2000	197,861	109,469	88,392

Since 2000 Annuitants and Beneficiaries have increased by 24% while the number of Active members has remained relatively steady.

## Active Employee Age and Service (as of December 31, 2009)

Average Age:	46.5
Average Years of Service:	12.5

## Profile of Annuitants, Beneficiaries and Survivor Annuitants (as of December 31)

	Average Age				Average Annual Pension			
	2006	2007	2008	2009	2006	2007	2008	2009
<b>Superannuation Annuitants</b>	73.4	72.8	72.8	72.8	\$20,085	\$21,327	\$21,965	\$22,695
<b>Early Retirees</b>	61.3	61.4	61.8	62.2	13,638	14,516	14,668	14,932
<b>Disabled Annuitants</b>	60.3	60.5	60.8	61.1	12,654	13,026	13,251	13,443
<b>Beneficiary/Survivors</b>	76.0	75.0	75.0	74.9	8,308	8,654	9,094	9,481

Since 2006 the average superannuation pension is up 13%.



# Legislation

## **Legislation Enacted During 2009**

No amendments to the Retirement Code (Title 71) became law during 2009.





## Funding Process and Actuarial Status 7



# Funding Process & Actuarial Status

(unaudited)

SERS administers both a defined benefit plan (Fund) and a defined contribution plan (the Deferred Compensation Program). This report focuses on the three sources of funding for the SERS defined benefit plan: employee contributions, which are fixed, and employer contributions and investment earnings, both of which are variable. Also included here is an explanation of supplemental annuity (“Cost Of Living Adjustment” or “COLA”) funding. See below illustration, *Sources of SERS’ Funding*.

## What is a Defined Benefit Pension Plan?

A defined benefit pension plan provides benefits that are determined by a fixed benefit formula that takes into account the employee’s length of service, age, compensation, and a legislatively determined accrual rate. Actuarial calculations are used to establish the amount of contributions required to provide those benefits. The law that created SERS, the State Employees’ Retirement Code (Retirement Code), provides that the Commonwealth of Pennsylvania must guarantee payment of SERS benefits.

In contrast, the Commonwealth’s Deferred Compensation Program (Internal Revenue Code Section 457 (b) plan) is a defined contribution plan, which provides supplemental benefits based on the member’s account balance at retirement or time of distribution. Participation in the Deferred Compensation Program is voluntary, and employers do not contribute to it. While this report primarily discusses the funding of SERS’ defined benefit plan, you will find additional information on the Deferred Compensation Program in Tab 12.

## Actuarial Process

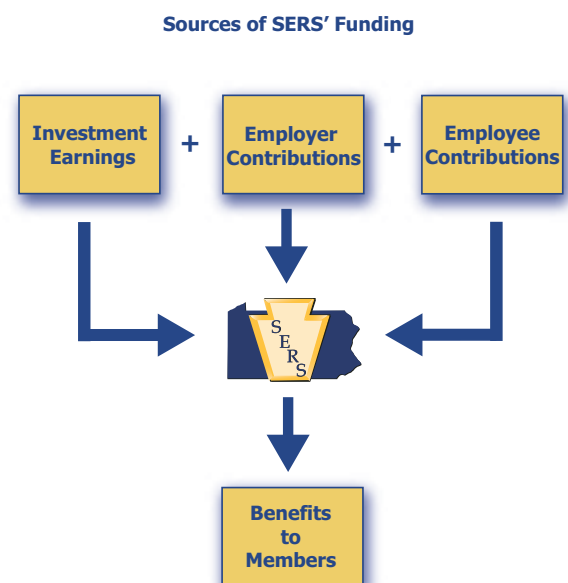
The ultimate cost of the Fund is determined by the total benefits to be paid to retired employees throughout their lives and to Beneficiaries of deceased members. This cost cannot be precisely determined prospectively because the commencement and duration of benefits for Active employees and the duration of future benefit payments for Retirees are uncertain. Therefore, pension cost determinations are based on actuarial assumptions and actuarial cost methods, which are used to establish total cost and assign that cost to periods of time. For example, the amortization period of actuarial gains and losses is established by statute. Actuarial assumptions, gains and losses vary over time and have a significant impact on the determination of an appropriate employer contribution rate.

To provide a basis for predicting future costs, SERS’ actuary reviews economic and demographic experience over five-year periods. That experience is used to develop actuarial assumptions about future salary growth, investment returns, and demographic factors such as rates of retirement and death.

On an annual basis, the actuary conducts a valuation of the Retirement Fund. Based upon the latest member demographic data, the actuary determines the value of expected future obligations and compares it to the value of the Retirement Fund’s assets. Based on this valuation, the actuary recommends employer contribution rates to the State Employees’ Retirement Board (Board). The Retirement Code vests the Board with the authority to establish the employer contribution rates, and the Board uses the annual actuarial valuation to do so.

## Interrelationship of Funding Sources

The framers of the Retirement Code designed SERS as a system that, to remain financially sound, would require regular funding each year from each of the three sources shown at right: employees, employers and investment earnings. Currently, most employees contribute 6.25% of salary, a rate set by statute. The currently assumed annual rate of return on investments is 8%. (The Board establishes the assumed rate based on advice from the staff, investment consultant and actuary; in April 2009 the Board revised the assumed rate down from 8.5% to 8%, believing the lower number to be a more



# Funding Process & Actuarial Status *(continued)*

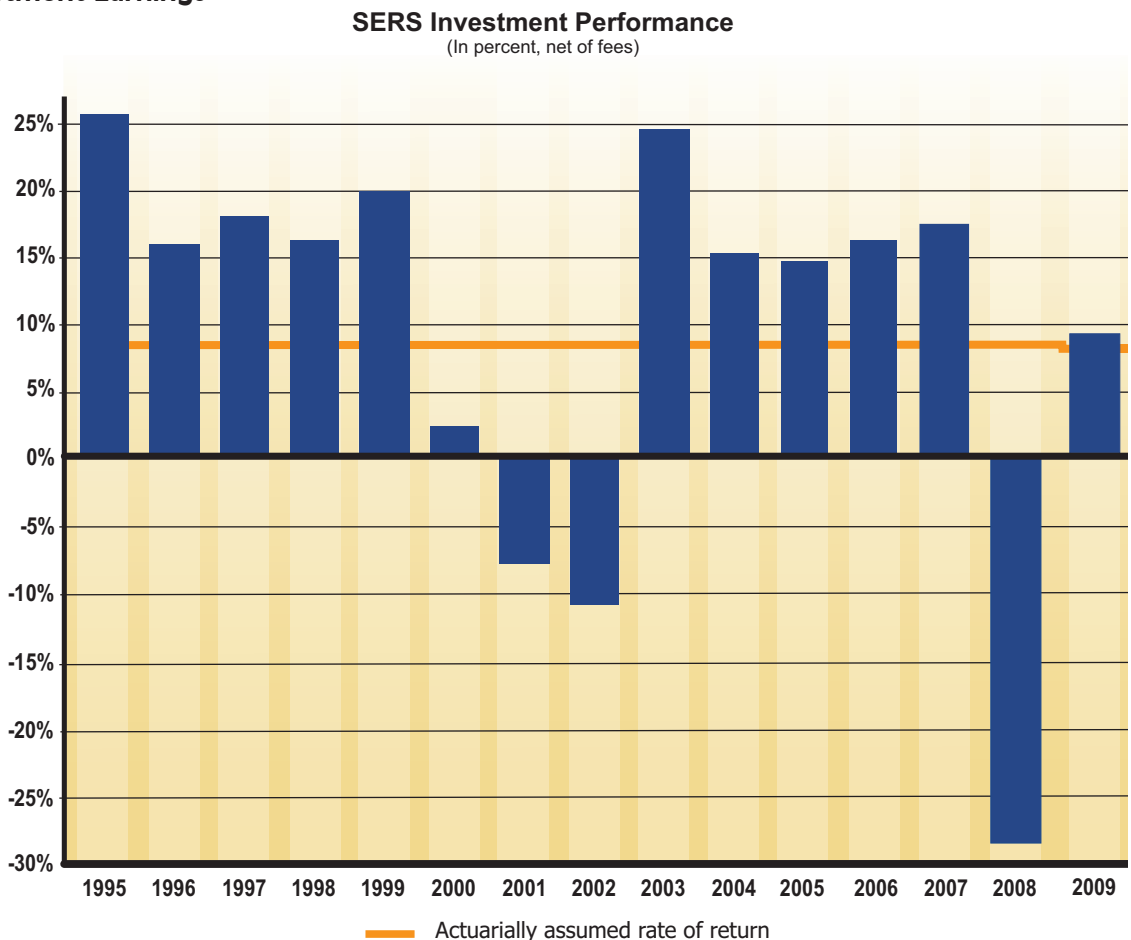
realistic long-term assumption given the current market environment and the Fund’s anticipated future cash flow needs). The “employer normal cost” -- the amount employers would pay if the assumed rate of return and all other actuarial assumptions proved to be precisely correct and there were no unfunded liability -- currently is 9.51% of payroll.

Obviously, it is beyond the power of the Board to know in advance how much investments will earn in any given year. Actual returns can vary widely; in fact, it is highly unlikely that the investment returns will precisely match the assumed return in any given year. The Retirement Code recognizes this reality and deals with it by creating a linkage between investment earnings and employer contributions. It does so by requiring the Board to adjust the employer contribution rate each year based on actual investment returns and actuarial experience. When investment earnings exceed the 8% actuarially assumed return, the Board may be able to reduce the employer contribution rate. Conversely, when investment earnings fall short of assumptions, the Board may find it necessary to increase the employer contribution rate. Since the employee rate is fixed by statute, it does not change from year to year, regardless of investment gains or losses. The employer share, however, can and does vary widely. The employer share has recently been as low as zero and is currently 4% (the statutory floor). But as discussed in more detail below, the era of extremely low employer contribution rates is ending. Rates are expected to begin climbing this year, jump sharply upward in 2012 (the much-discussed pension “spike”), peak the following year and remain high for years thereafter.

## Funding Source 1: Investment Earnings

The Fund’s investment performance returned to positive territory in 2009, with an estimated return of 9% (unaudited). As Chairman Maiale notes in his cover letter, this marks the 11<sup>th</sup> time in the last 15 years that the Fund’s earnings have not only been positive but also have exceeded the assumed rate of return.

Because the Fund is invested in the global financial markets, its performance tends to reflect trends in the global economy. From 1995 through 1999, the Fund experienced investment rates of return ranging from a low of 15.9% to a high of 25.2%, and earned its best ever five-year annualized return of close to 19%. Returns fell into

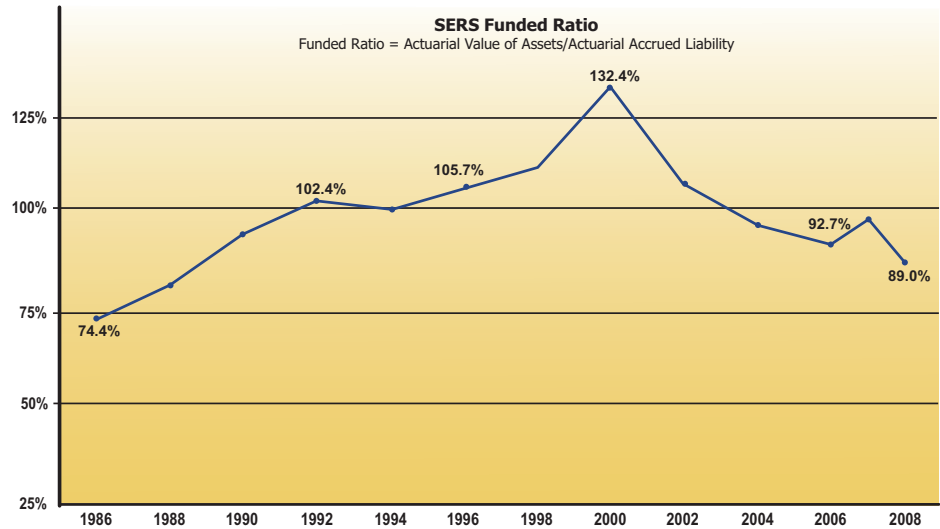


barely positive territory in 2000, followed by two years of negative returns in the 2001-02 bear market. The Fund then posted exceptionally strong returns over the 2003-07 period, achieving a five-year annualized return of 17.5%. The global economic crisis and resulting recession struck the Fund hard in 2008, however, resulting in a return of minus 28.7% and essentially erasing the prior two years’ earnings. See above illustration, *SERS Investment Performance*. The global recession dragged into the first quarter of 2009, pushing the Fund down another 7.5%, but as the markets began to recover over the subsequent three quarters, so did the Fund. The Fund’s 9% (unaudited) performance for the year is the net result of the negative first quarter plus an almost 18% gain over the last three quarters.

# Funding Process & Actuarial Status *(continued)*

In order to smooth out fluctuations in the market value of assets, which could otherwise result in volatile year-to-year changes in employer contribution requirements, SERS and its actuary rely upon the actuarial value of assets (not the market value) for funding calculations. Over a five-year period, the actuarial value of assets gradually recognizes the differences between total investment

return and the assumed annual rate of return. By allocating the investment rate of return over a five-year period, SERS recognizes only 20% of the asset gain/loss (the difference between the actual return and the actuarial assumption at 8%), which occurred during the year immediately preceding the actuarial valuation date, with the remainder to be recognized (at an additional 20% per year) over the following four years. As a result, when investment earnings trends change, there is a delayed effect on employer contribution rates. Thus while the Fund returned to positive territory in 2009, four-fifths of the 2008 losses remain to be recognized over this and the next three years.



## Funded Position

The funded position of the System is measured by its funded ratio -- the actuarial value of assets, divided by the actuarial accrued liability. The most recent actuarial valuation, as of December 31, 2008, showed SERS to be 89% funded. That will change, however, in the 2009 and subsequent valuations as the remainder of 2008's deep negative return is smoothed in and as ongoing benefit payouts, far in excess of contributions, are factored into the actuarial funding calculation. On a market value basis, SERS was 66.2% funded as of December 31, 2008; we expect the 2009 and subsequent actuarial valuations will show the actuarial value of assets moving closer to the current market value.

In addition to the investment losses of 2008 and 2001-02, the System's underfunded status also is attributable in part to Act 2001-9 and the 2002-03 COLA, both of which significantly increased the Fund's actuarial accrued liabilities, and to changes to funding methodologies -- most recently Act 2003-40 -- which are temporarily suppressing employer contribution rates, depriving the System of revenue. *See above illustration, SERS Funded Ratio.*

## Additional points of note:

- SERS used an actuarially assumed rate of return of 8.5% from 1995 through 2008; this rate is reviewed annually for reasonableness, based on current economic conditions. The Board's 2009 review led to a conclusion that reasonableness dictated lowering the assumed rate to 8%.
- SERS has exceeded the actuarially assumed rate of return in 11 of the past 15 years.
- The SERS Fund historically has outperformed its assumed rate and on a long-term basis continues to do so. Even with the 2008 losses, the 20-year estimated compounded rate of return is 8.6% and the 30-year return is 9.9%.

## Funding Source 2: Employer Contributions

The Board establishes the employer contribution rate annually, based on the actuary's recommendation. The employer contribution rate is expressed as a percentage of payroll. Different service classifications of SERS members require different contribution rates.

The total employer contributions are made up of two parts: the normal cost; and a contribution for the unfunded actuarial liability (UAL), if any. The normal cost is the cost of SERS benefits to be earned in the coming year. Currently,

# Funding Process & Actuarial Status *(continued)*

the normal cost is 9.51%. The UAL is the amount of the actuarial accrued liability in excess of the actuarial value of assets. In theory, if the UAL were zero, and all of the actuarial assumptions turned out to be correct, and there were no amendments to the Retirement Code, the normal cost contributions would be sufficient to fund the liabilities for participants. However, the normal cost alone usually will not fund the Fund's total liabilities. The total of the liabilities that will not be funded by future normal cost is the unfunded actuarial accrued liability.

The UAL is amortized – that is, funded – in installments. Act 2003-40 changed the funding period for most, but not all, of SERS' actuarial liabilities from 10 years to 30 years. This had the effect of temporarily suppressing rates for 10 years, enabling the Commonwealth to avoid making any payments toward the unfunded liability until 2012. Absent the rate suppression dictated by Act 40, the UAL would have been paid off incrementally over the entire 30-year amortization period. Instead, having postponed paying the UAL – or even the full employer normal cost – for 10 years, the UAL is now even higher and will have to be paid over 20 years. Act 40 also set a series of floor contribution rates, with the highest, and final, floor being 4% for the 2006-07 state fiscal year. Act 2007-8 established 4% as the permanent employer contribution rate floor for SERS.

Prior to the enactment of Act 40, it was projected that if nothing was done, the SERS employer rate would start a steep climb in 2003-04 and would peak, in 2012, at 28.6% of payroll. Act 2003-40 changed the amortization schedule in a way that was intended to still result in regular annual employer rate increases in advance of 2012, but at lower levels, and to produce a somewhat lower 2012 peak. That was achieved by pushing payments into the future. Subsequent to the enactment of Act 40, SERS produced, as previously noted, five years of exceptionally strong investment returns. That brought the projected 2012 spike down into single digits.

The downward trend in rate projections was sharply reversed, however, as a result of the 2008 investment losses, exacerbated by the fact that annual payouts for benefits and expenses far exceed annual employer and employee contributions. When investment earnings are strong, the Fund can grow even while paying out billions each year in benefits. When earnings are weak or negative, payouts reduce the Fund balance. *See below table, Additions and Deductions to Plan Net Assets.* The table documents Chairman Maiale's statement, in his cover letter accompanying this submission, that "Over the past 10 years, SERS has paid out almost \$18.2 billion in benefits and expenses, while investment income (including seven years of gains and three of losses) totaled \$10.0 billion. During that 10-year period, employer and employee contributions, combined, totaled \$4.6 billion (employees, \$3.0 billion; employers, \$1.6 billion), or just over a quarter of payouts."

## Additions and Deductions to Plan Net Assets Calendar Years (\$ millions)

Year	Employer Contributions	Employee Contributions	Total Contributions	Investment Income	Benefits and Expenses	Market Value
2009 <sup>1/</sup>	\$245	\$348	\$593	\$3,335	\$(2,288)	\$24,436
2008	235	337	572	(11,061)	(2,231)	22,796
2007	244	334	578	5,246	(2,361)	35,516
2006	196	318	514	4,730	(1,943)	32,053
2005	148	306	454	3,623	(1,966)	28,752
2004	107	310	417	3,568	(1,880)	26,641
2003	68	308	376	4,936	(1,656)	24,536
2002	51	304	355	(2,731)	(1,450)	20,880
2001	77	240	317	(2,225)	(1,266)	24,706
2000	168	232	400	585	(1,198)	27,880
<b>10 Year Total</b>	<b>\$1,539</b>	<b>\$3,037</b>	<b>\$4,576</b>	<b>\$10,006</b>	<b>\$(18,239)</b>	<b>*</b>

<sup>1/</sup> 2009 Unaudited

\* Ten year net additions and deductions were \$(3,657).



# Funding Process & Actuarial Status *(continued)*

While 2009 Fund earnings were positive and slightly exceeded the assumed rate of return, those gains equaled only about a third of 2008's losses. The UAL which stood at \$3.8 billion as of December 31, 2008, is estimated to increase to \$5.8 billion as of December 31, 2009 (with the precise amount to be determined by the 2009 valuation) and is expected to grow as the 2008 loss is actuarially smoothed in. The statutory funding methodology requires that the severe shortfall be made up through future increases in the employer contribution rate.

The 2008 valuation projects that the current 4% employer contribution rate will rise to 5.9% effective July 1 of this year, climb further to 8.8% (which is still below the employer normal cost) effective July 1, 2011, then spike upward to 28.3% effective July 1, 2012. The projected maximum rate would be reached the following year, 2013-14, at 31.4% of payroll. Rates are projected to decline thereafter, but only very gradually, remaining above 25% through the 2025-26 fiscal year. See below table, *SERS Projected Funded Status & Employer Contributions* for more detail on projections deriving from the 2008 valuation. The 2009 valuation will result in updated projections but they are not expected to change materially.

## SERS Projected Funded Status & Employer Contributions Assuming 8% investment return

Calendar Year	Payout Projection	Funding Status Projection		Employer Contribution Projection			
	Benefits & Expenses (\$ billions)	Funded Ratio	UAL (\$ billions)	Fiscal Year	Employer Contribution Rate	Expected FY Payroll (\$ millions)	Expected FY Contribution (\$ millions)
2008	\$2.2	89.0%	\$3.8	09/10	4.0%	\$5,660.3	\$226.4
2009	2.4	83.7	5.8	10/11	5.9	5,847.1	343.6
2010	2.5	77.2	8.4	11/12	8.8	6,040.1	530.8
2011	2.7	69.3	11.6	12/13	28.3	6,239.4	1,765.7
2012	2.8	62.2	14.5	13/14	31.4	6,445.3	2,025.7
2013	3.0	62.6	14.7	14/15	30.4	6,658.0	2,024.9
2014	3.1	63.4	14.7	15/16	30.2	6,877.7	2,074.0
2015	3.3	64.3	14.7	16/17	29.8	7,104.7	2,114.4
2016	3.4	65.4	14.6	17/18	29.3	7,339.1	2,147.7
2017	3.6	66.7	14.4	18/19	28.7	7,581.3	2,176.7
2018	3.7	67.9	14.1	19/20	28.2	7,831.5	2,205.4
2019	3.9	69.1	13.8	20/21	27.6	8,089.9	2,234.2
2020	4.1	70.3	13.5	21/22	27.1	8,356.9	2,263.6
2021	4.2	71.5	13.2	22/23	26.6	8,632.7	2,293.8
2022	4.4	72.7	12.8	23/24	26.1	8,917.5	2,324.8
2023	4.6	73.9	12.4	24/25	25.6	9,211.8	2,356.9
2024	4.8	75.1	12.0	25/26	25.1	9,515.8	2,390.0
2025	5.0	76.3	11.5	26/27	24.7	9,829.8	2,424.2
2026	5.2	77.6	11.0	27/28	24.2	10,154.2	2,459.5
2027	5.5	78.9	10.4	28/29	23.8	10,489.3	2,496.0
2028	5.7	80.2	9.8	29/30	23.4	10,835.5	2,533.7
2029	5.9	81.6	9.1	30/31	23.0	11,193.0	2,572.6
2030	6.2	83.0	8.4	31/32	22.6	11,562.4	2,612.8
2031	6.5	84.5	7.6	32/33	20.4	11,944.0	2,440.6
2032	6.7	85.8	7.0	33/34	19.4	12,338.1	2,389.5
2033	7.0	86.9	6.4	34/35	18.9	12,745.3	2,403.4

# Funding Process & Actuarial Status *(continued)*

In discussing projected rates, it must be remembered that the projections are based not only on historical data but also on various assumptions, and that reality almost certainly will diverge from the assumptions. Thus the projected 2012 spike has changed considerably over time, and will continue to change in the intervening years. Perhaps most importantly, the projections assume that SERS will earn exactly 8% on investments each year. Earnings in excess of that assumption reduce the projected spike, as we have seen; earnings of less than the assumption push the projection upward. Likewise, any further change in the return assumption itself would result in changes to the projections. In addition, a projection for any given future year assumes that in all intervening years, employers will have paid at the rates currently being projected for those years; any deferral of payments in the near term would further drive up projected rates in the long term.

## Employer Contribution Provisions

- Employer contributions to SERS are required both to fund the employer normal cost and to amortize the UAL.
- The current 4% employer contribution rate is less than half the employer normal cost.
- The employer contribution rate actually fell to zero for two years prior to the imposition of statutory floors.
- The current statutory funding methodology will require a dramatic increase in employer contribution rates beginning in July 2012.
- Rates are expected to begin climbing this year, spike sharply upward in the 2012-13 fiscal year but not peak until the following year.
- After peaking in 2013, rates are projected to remain high for decades thereafter.

Among the many SERS benefit costs that the actuary values each year is the cost of the Retirement Code's Option 4. Under Option 4, a retiring SERS member may elect to receive a refund of all or part of that member's Accumulated Deductions (employee contributions plus 4% statutory interest) and receive a reduced annuity. Members who elect Option 4 receive a proportionally reduced benefit. Still, election of Option 4 increases the cost to the Fund because the refund is calculated at 4% interest whereas it is assumed that, if the Accumulated Deductions were left in the Fund, they would earn 8% interest. More than 90% of retirees choose the Option 4 refund.

## Funding Source 3: Employee Contributions

The simplest component of the funding mechanism is employee contributions. Pursuant to the Code, SERS members pay a statutorily determined contribution rate. Most SERS members contribute to the Fund at the rate of 6.25% of their gross compensation. Commonwealth employees made approximately \$348 million in contributions in 2009.

## Explanation of SERS Supplemental Annuities ("Cost of Living Adjustments" or "COLAs")

The Retirement Code contains procedures, definitions and actuarial requirements for calculating benefits. The Retirement Code does not provide for an automatic annual inflation-based COLA as Social Security does. Instead, the Legislature has from time to time voted to grant increases in benefits for retirees. While commonly referred to as "COLAs," these supplemental annuities (as they are properly known) are not dictated by any inflation-based formula. The amount and structure of each supplemental annuity is entirely within the discretion of the Legislature, and each requires new legislation. Also, because the Retirement Code does not provide for advanced funding or actuarial reserves for COLAs, COLAs historically have been funded after they have been granted. COLAs are paid from future employer contributions.

Over the past 40 years, the Pennsylvania General Assembly has legislated eight general COLAs effective in 1968, 1974, 1979, 1984, 1989, 1994, 1998, and 2002/2003. Generally, the amount of the COLA has been determined by a formula that accounts for years of service, years in retirement and inflation since the previous COLA.

COLAs generally have been given to retirees who have reached either their Normal Retirement ("superannuation") Age, (60 for most classes but 50 for some) or the age at which the member would have been credited with 35 years of credited service, and all disabled retirees. COLAs are payable to early retirees once they reach Normal Retirement Age. The Pennsylvania Constitution prohibits paying COLAs to Beneficiaries of deceased members or Survivor Annuitants.



# Funding Process & Actuarial Status *(continued)*

COLAs increase the Fund's liabilities (as a result of the increases in benefits paid to members). However, the usual SERS funding mechanism does not provide a source from which to pay for the increased benefits. Therefore, when the actuary determines the cost of a COLA, the liability for the COLA is established in SERS' Supplemental Annuity Account. Under current law, the COLA liability must be amortized over 10 years, with the amortization payments being included in the employer contribution rate. Thus, the money to pay for COLAs ultimately comes from increased future employer contributions.

## **Funding of Supplemental Annuities**

- Because the Retirement Code does not provide for automatic COLAs or the necessary funding, each new supplemental annuity must be legislated individually.
- Every supplemental annuity or COLA enacted since 1968 required an amendment to the Retirement Code and added a new liability to the Fund.

## **Benefits to Members**

- At retirement, SERS calculates the actuarial value of the annuity to be paid over the expected lifetime of the member and transfers the balance of the member's Accumulated Deductions, plus reserves from the State Accumulation Account, into the annuity reserve accounts to pay that lifetime benefit.
- The annuity reserve accounts contain funds for all current retirees and Beneficiaries based on the amount of the original benefit at retirement.
- No funds are in the annuity reserve accounts to pay for future COLAs.



# Investment Policy, Objectives and Performance 8



# Investment Policy

The Board originally adopted a formal *Statement of Investment Policy* in 1979. It has been revised periodically, to reflect and incorporate legislative changes governing investments and amendments to policies and procedures guiding the investment of the defined benefit portfolio. The latest *Statement of Investment Policy* was adopted in 2009. The purpose of the statement is to formalize the Board's investment objectives, policies, and procedures; to establish guidelines for the investment of Fund assets, and to define the duties and responsibilities of the various entities involved in the investment process. The major elements of the statement are:

- As fiduciaries, the Board will exercise that degree of judgment, skill and care under the circumstances then prevailing which investors of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs in investment matters;
- The Fund's overall investment objective is to provide a total rate of return, over full economic cycles, which exceeds the return of a fully diversified market portfolio within each asset class. The Board seeks to meet this objective within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, quality and geographic location;
- The Board employs an investment staff and also contracts with investment advisors and consultants to provide expert, professional judgment in all investment decisions;
- An annual strategic investment plan is prepared to establish the allocation of funds among investment advisors and categories of assets during the year;
- Objectives are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification and liquidity;
- SERS is committed to promoting and improving good corporate governance practices of companies within the portfolio; and
- Where investment characteristics, including yield, risk and liquidity are equivalent, the Board's policy favors investments which have a positive impact on the economy of Pennsylvania.

# Investment Objectives

To assure an adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth and to provide some protection against the erosion of principal by inflation, the long-term investment objectives of the Fund, are:

- Achieve a net total return equivalent to the actuarial return assumption, or preferably in excess of this rate over market cycles in order to improve the funded ratio of the Fund through investment earnings.
- Achieve in Global Stock a total return that exceeds the total return of the MSCI World Index;
- Achieve in U.S. Stock a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in Non-U.S. Stock a total return that exceeds the total return of the SERS Custom International Stock Benchmark;
- Achieve in the stand alone Absolute Return Strategy a total return that exceeds the SERS Custom Absolute Return Benchmark;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Custom Fixed Income Benchmark;
- Achieve in the Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark;
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in Inflation Protection a total return that exceeds the total return of the SERS Custom Inflation Protection Benchmark;
- Achieve in the Cash asset class a total return that exceeds the total return on U.S. Treasury Bills (90 days);

Total return includes income and both realized and unrealized gains and losses and is computed on market value. The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style and geographic location.

# Asset Allocation Trend

## Prudent Investor Investment Standards

The Board's investment authority is governed by the "prudent investor" standard as set forth in Title 71, Pennsylvania Consolidated Statutes, Section 5931(a). Enactment of the "prudent investor" standard in Act 1994-29 and the 2008 asset/liability study completed by Rocatton Investment Advisors and the SERS Investment Staff are the foundation of SERS' investment strategy. With "prudent investor" investment authority, SERS is able to pursue a broader array of investment opportunities that enhance the ability to achieve reasonable rates of return while maintaining risk at acceptable levels. The asset/liability study demonstrated that the prudent application of this expanded authority should result in a more efficient portfolio that better serves the needs of SERS.

## Total Fund Asset Allocation

SERS develops an annual strategic investment plan which provides direction for the SERS' investment program. The *2010 Annual Strategic Investment Plan* will be implemented over a period of five years. The Fund's asset allocation strategy will evolve over this timeframe until the long-term targets for each asset category are achieved by the end of the year 2014.

Asset Allocation		
12/31/2009 Preliminary	Asset	2010 Strategic Asset Allocation
25.6%	Stocks	35.5%
23.5	Alternative Investments	12.0
8.7	Real Estate	7.0
11.9	Fixed Income	32.5
6.4	Inflation Protection	4.0
22.7	Absolute Return	9.0
1.2	Cash	0.0
100.0%		100.0%

*\*Numbers may not add due to rounding.*

# Estimated Investment Performance\*

## Calendar Year Basis

through December 31, 2009 (net of fees)

Asset Class	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stock <sup>1/</sup>	38.4%	-0.9%	N/A	N/A
<i>MSCI World Index</i>	30.0%	-5.6%	N/A	N/A
U.S. Stock	26.3%	-8.6%	-0.6%	0.1%
<i>Russell 3000 Index</i>	28.3%	-5.4%	0.8%	-0.2%
Non-U.S. Stock	41.0%	-7.8%	3.5%	2.9%
<i>SERS Custom International Stock Benchmark</i> <sup>2/</sup>	43.6%	-3.9%	6.5%	3.8%
Fixed Income	31.8%	4.9%	5.4%	6.7%
<i>SERS Custom Fixed Income Benchmark</i>	27.9%	6.3%	6.1%	6.6%
Absolute Return <sup>3/</sup>	13.0%	N/A	N/A	N/A
<i>SERS Custom Absolute Return Benchmark</i>	3.7%	N/A	N/A	N/A
Cash	0.5%	3.0%	3.4%	3.2%
<i>90 day U.S. T-bills</i>	0.2%	2.4%	3.0%	3.0%
Real Estate <sup>4/</sup>	-28.7%	-8.0%	3.7%	6.8%
<i>Townsend Stylized Benchmark</i>	-17.5%	-1.5%	6.7%	8.7%
Private Equity <sup>4/</sup>	-5.9%	7.3%	15.5%	11.2%
<i>Cambridge Private Equity Benchmark</i>	-10.4%	3.2%	12.9%	9.1%
Venture Capital <sup>4/</sup>	-14.6%	-0.2%	3.4%	-1.2%
<i>Cambridge Venture Capital Benchmark</i>	-12.8%	2.1%	5.8%	2.6%
Inflation Protection <sup>5/</sup>	22.7%	3.6%	5.4%	N/A
<i>SERS Custom Inflation Protection Benchmark</i>	20.9%	-1.4%	2.2%	N/A
<b>Total Fund</b>	<b>9.0%</b>	<b>-3.1%</b>	<b>4.0%</b>	<b>3.9%</b>
<b>Total Fund Benchmark</b>	<b>18.5%</b>	<b>0.0%</b>	<b>5.7%</b>	<b>4.2%</b>

\*Returns for periods longer than one year are annualized.

<sup>1/</sup> Global Stock was initially funded in November 2006.

<sup>2/</sup> The Non-U.S. Stock asset class and the SERS Custom International Stock Benchmark were hedged between May 1, 1996 ending January 31, 2007.

<sup>3/</sup> Absolute Return was initially funded in August, 2007.

<sup>4/</sup> Results for the Real Estate, Private Equity, Venture Capital and Benchmarks are lagged one quarter.

<sup>5/</sup> Inflation Protection was initially funded in November, 2001.

# Investment Performance\*

## Commonwealth Fiscal Year Basis

through June 30, 2009 (net of fees)

Asset Class	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 year Total Return
Global Stock <sup>1/</sup>	-23.1%	N/A	N/A	N/A
<i>MSCI World Index</i>	-29.5%	N/A	N/A	N/A
U.S. Stock	-36.5%	-11.0%	-2.7%	-1.1%
<i>Russell 3000 Index</i>	-26.6%	-8.3%	-1.8%	-1.5%
Non-U.S. Stock	-39.2%	-9.8%	1.8%	2.8%
<i>SERS Custom International Stock Benchmark</i> <sup>2/</sup>	-30.4%	-5.9%	5.2%	3.3%
Fixed Income	-5.6%	2.1%	3.7%	5.2%
<i>SERS Custom Fixed Income Benchmark</i>	1.5%	4.9%	5.0%	5.5%
Absolute Return <sup>3/</sup>	-11.3%	N/A	N/A	N/A
<i>SERS Custom Absolute Return Benchmark</i>	3.5%	N/A	N/A	N/A
Cash	2.1%	3.8%	3.5%	3.4%
<i>90 day U.S. T-bills</i>	1.0%	3.2%	3.2%	3.2%
Real Estate <sup>4/</sup>	-26.9%	-2.2%	7.1%	8.8%
<i>Townsend Stylized Benchmark</i>	-21.0%	0.4%	7.5%	9.0%
Private Equity <sup>4/</sup>	-27.8%	5.0%	13.5%	12.0%
<i>Cambridge Private Equity Benchmark</i>	-24.4%	2.7%	12.0%	9.4%
Venture Capital <sup>4/</sup>	-20.3%	-0.9%	2.9%	1.3%
<i>Cambridge Venture Capital Benchmark</i>	-17.1%	2.1%	6.5%	8.2%
Inflation Protection <sup>5/</sup>	-40.1%	-4.3%	4.7%	N/A
<i>SERS Custom Inflation Protection Benchmark</i>	-46.1%	-9.0%	0.9%	N/A
<b>Total Fund</b>	<b>-28.3%</b>	<b>-3.6%</b>	<b>3.5%</b>	<b>3.8%</b>
<b>Total Fund Benchmark</b>	<b>-20.5%</b>	<b>-1.6%</b>	<b>4.6%</b>	<b>3.6%</b>

\*Returns for periods longer than one year are annualized.

<sup>1/</sup> Global Stock was initially funded in November 2006.

<sup>2/</sup> The Non-U.S. Stock asset class and the SERS Custom International Stock Benchmark were hedged between May 1, 1996 ending January 31, 2007.

<sup>3/</sup> Absolute Return was initially funded in August, 2007.

<sup>4/</sup> Results for the Real Estate, Private Equity, Venture Capital and Benchmarks are lagged one quarter.

<sup>5/</sup> Inflation Protection was initially funded in November of 2001.

# Investment-Related Statistics

## SERS Investment-Related Statistics Calendar Year 1980 through 2009 (Unaudited)

Year End	SERS Fund Fair Value (\$ millions)	# of Investment Advisors	# of Portfolios	# of Consultants	Annual Total Fund Rate of Return <sup>1/</sup>
1980	\$2,689	3	3	3	5.3%
1981	2,817	5	6	3	0.9%
1982	3,730	6	7	4	27.8%
1983	4,396	14	17	4	13.0%
1984	4,922	22	24	4	9.4%
1985	6,157	23	26	3	23.1%
1986	7,120	30	34	3	15.2%
1987	7,367	37	42	3	3.3%
1988	8,312	41	49	3	12.8%
1989	9,785	47	59	4	17.8%
1990	9,886	53	65	4	1.0%
1991	11,940	56	68	4	22.6%
1992	12,453	66	79	4	7.4%
1993	13,701	61	80	4	13.2%
1994	13,330	78	100	4	- 1.1%
1995	16,343	81	103	4	25.2%
1996	18,492	96	126	4	15.9%
1997	21,312	112	154	4	18.0%
1998	24,123	99 <sup>2/</sup>	163	3	16.3%
1999	28,093	116	204	3	19.9%
2000	27,880	132	245	3	2.2%
2001	24,706	143	277	3	-7.9%
2002	20,880	149	289	3	-10.9%
2003	24,536	153	295	4	24.3%
2004	26,641	163	324	4	15.1%
2005	28,752	167	364	3	14.5%
2006	32,053	180	403	3	16.4 %
2007	35,516	190	438	3	17.2%
2008	22,796	197	463	3	-28.7%
2009 <sup>3/</sup>	24,436 <sup>4/</sup>	192	457	3	9.0%

<sup>1/</sup> Fund rate of return for Real Estate and Alternative Investments are lagged one quarter including allocations and distributions.

<sup>2/</sup> Restated in 1998 and thereafter to eliminate double counting of managers managing assets across asset classes.

<sup>3/</sup> 2009 values are estimated.

<sup>4/</sup> Fund fair values for Real Estate and Alternative Investments are lagged by one quarter adjusted for allocations and distribution since 4<sup>th</sup> quarter values were not available for those asset classes at time of print.





## Investment Program Summary 9



# Investment Program Summary

as of December 31, 2009 - (unaudited)

The assets of SERS are administered by the Board. The Board adopted an investment policy (Policy) that incorporates the provisions of the Retirement Code which govern the investment of SERS' assets. The Policy provides investment objectives and guidelines. SERS' investment plan is reviewed and updated annually for strategic asset allocation purposes, as well as for diversification needs within each asset class.

**Market Exposure as of December 31, 2009:** SERS' assets had an unaudited market exposure of approximately \$24,435.6 million.

## SERS Asset Allocation

Asset	*Market Exposure (Unaudited)		2009 Long-Term Target Allocation
	(\$ millions)	%	
Global Stock	\$831.5	3.4%	5.0%
U.S. Stock	2,730.4	11.2	21.0
Non-U.S. Stock	2,682.8	11.0	21.0
Absolute Return	5,555.8	22.7	9.0
Fixed Income	2,903.2	11.9	15.0
Real Estate	2,114.4	8.7	8.0
Alternative Investments	5,739.2	23.5	14.0
Inflation Protection	1,560.7	6.4	7.0
Cash	317.6	1.2	0.0
<b>Total</b>	<b>\$24,435.6</b>	<b>100.0%</b>	<b>100.0%</b>

\* Numbers may not add due to rounding.

**Number of Investment Advisors:** Many advisors manage multiple portfolios across and within asset classes. SERS had 192 unique external investment advisory firms managing portfolios. There are 29 advisors in the public markets domain, 158 in private markets, and five in both, public and private markets. Of these, 18 advisors manage 40 portfolios across asset classes.

- 2 Global Stock advisors
- 8 U.S. Stock advisors
- 7 Non U.S. Stock advisors
- 6 Absolute Return advisors
- 13 Fixed Income advisors
- 1 Cash advisors
- 3 Inflation Protection advisors
- 26 Real Estate advisors
- 57 Venture Capital general partners managing limited partnerships
- 91 Private Equity general partners managing limited partnerships

**Number of Investment Portfolios:** SERS had 457 investment portfolios. Of these, 49 portfolios are public market investments and 408 cover private markets.

- 2 Global Stock portfolios
- 10 U.S. Stock portfolios
- 12 Non U.S. Stock portfolios
- 6 Absolute Return portfolios
- 15 Fixed Income portfolios
- 1 Cash portfolios
- 3 Inflation Protection portfolios
- 60 Real Estate portfolios
- 120 Venture Capital limited partnership interests
- 228 Private Equity limited partnership interests

In addition, Board appointments included three new fixed income advisors.

# Global Stock Investments Summary

as of December 31, 2009 - (unaudited)

Global stock is a component of the stock asset class, one of six major asset classes which SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmarks. SERS contracts with external investment advisors to manage the portfolios.

**Investment Objective:** Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The global stock accounts are managed on a total return basis.

SERS' long-term investment objective for the global stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI World Index.

SERS' 2009 *Investment Plan* targets an allocation of 5.0% of Fund assets to global stocks.

**Market Exposure as of December 31, 2009:** Global stock had a \$831.5 million market exposure, 3.4% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with two external investment advisors.

**Number of Investment Portfolios:** SERS had two global stock portfolios managed by two investment advisors.

**Type of Investment Portfolios:** As of December 31, 2009, SERS global stock allocation was invested in large/mid-capitalization strategies.

## SERS Global Stock Investments

Global Stock Investment Advisor	Investment Style	*Market Exposure as of 12/31/09 (\$ millions)
1. Walter Scott & Partners	Growth	\$413.9
2. Marathon-London Global Fund	Contrarian sector relative value	417.6
<b>Total Global Stock</b>		<b>\$831.5</b>

*\*Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

# U.S. Stock Investments Summary

as of December 31, 2009 - (unaudited)

U.S. Stock is a component of the stock asset class, one of six major asset classes which SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmark. SERS contracts with external investment advisors to manage portfolios.

**Investment Objective:** Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The U.S. stock asset class is managed on a total return basis.

SERS' long-term investment objective in the U.S. Stock asset class is to achieve a total return, net of fees, that exceeds the total return of the Russell 3000 Index.

Stock investments shall include, but not be limited to, publicly traded securities which provide SERS with an equity interest, (e.g., common stock, preferred stock, convertible preferred stock, and convertible bonds); as well as S&P 500 Index swaps that provide S&P 500 Index returns.

SERS' **2009 Investment Plan** targets a long-term allocation of 21.0% of assets to U.S. Stock, 16.8% of the Fund to large cap and 4.2% of the Fund to mid/small cap, approximating the composition of the Russell 3000 Index.

The large cap U.S. stocks, benchmarked to the S&P 500 Index, uses: S&P 500 Index swaps, index funds, a fund of hedge funds, and an enhanced S&P 500 Index strategy. The mid/small cap U.S. stocks, benchmarked to the Russell 2500 Index, uses an index fund, and active strategies benchmarked to the Russell Midcap Index, the Russell 2500 Index, and the Russell Microcap Growth Index.

**Market Exposure as of December 31, 2009:** U.S. Stock had a \$2,730.4 million market value, 11.2% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with eight external investment advisors.

**Number of Investment Portfolios:** SERS had 10 U.S. Stock portfolios managed by the eight investment advisors.

**Type of Investment Portfolios:** As of December 31, 2009, 8.1% of SERS Fund was in large cap U.S. stocks, and 3.1% of SERS Fund was in mid/small cap U.S. stocks.

# U.S. Stock Investments Summary *(continued)*

## SERS U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	*Market Exposure As of 12/31/09 (\$ millions)
<b>All cap</b>		
1. BlackRock/Russell 3000 Index Non-Lendable Fund	Russell 3000 Index	\$246.4
<b>Large cap</b>		
2. NISA/S&P 500 Index swaps	Cash	63.8
3. Robeco Sage Capital-fund of hedge funds	Fund-of-Hedge Funds	6.8
BlackRock/Equity Index Non-Lendable Fund-S&P 500	S&P 500 Index	1,583.2
BlackRock/Alpha Tilts Fund-S&P 500	Enhanced S&P 500 Index	141.2
<b>Mid/small cap</b>		
4. Iridian Asset Management	Midcap private business value	163.5
5. AXA Rosenberg Investment Management	Risk-controlled Russell 2500	125.8
6. Emerald Advisers	Pennsylvania companies	243.4
7. Mellon Capital Management Corporation	Pennsylvania companies	130.9
8. Turner Investment Partners	Quantitative microcap growth	25.4
<b>Total U.S. Stock</b>		<b>\$2,730.4</b>

\*Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.

# Non-U.S. Stock Investments Summary

as of December 31, 2009 - (unaudited)

Non-U.S. Stock is a component of the stock asset class, one of six major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmarks. SERS contracts with external investment advisors to manage portfolios.

**Investment Objective:** Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Non-U.S. Stock asset class is managed on a total return basis.

SERS' long term investment objective for the Non-U.S. Stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom International Stock Benchmark (66.3% developed large/mid, 11.7% developed small, 22.0% emerging markets).

SERS' *2009 Investment Plan* targets a long-term allocation of 21.0% of assets to Non-U.S. Stock, 14.4% of the Fund to large/ mid cap stocks in developed markets, 2.6% of the Fund to small cap stocks in developed markets, and 4.0% of the Fund to stocks in emerging markets.

The large/ mid cap stocks in non-U.S. developed markets, benchmarked to the MSCI EAFE Index, uses indexed products and active strategies. The small cap stocks in non-U.S. developed markets, benchmarked to the MSCI EAFE Small Cap Index, uses active strategies. The emerging markets stocks allocation is benchmarked to the MSCI Emerging Markets Index and uses an MSCI Emerging Markets Index fund as well as active strategies.

**Market Exposure as of December 31, 2009:** Non-U.S. Stock had a \$2,682.8 million market exposure which was 11.0% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with seven external investment advisors.

**Number of Investment Portfolios:** SERS had 12 accounts managed by the seven investment advisors.

**Type of Investment Portfolios:** As of December 31, 2009, 6.6% of total Fund assets were allocated to large/ mid cap stocks in non-U.S. developed markets; 1.4% of total Fund assets were allocated to small cap stocks in non-U.S. developed markets; and 3.0% of total Fund assets were allocated to emerging markets.

# Non-U.S. Stock Investments Summary *(continued)*

## SERS Non-U.S. Stock Investments

Non-U.S. Stock Investment Advisor	Investment Style	*Market Exposure as of 12/31/09 (\$ millions)
<b>Large/mid cap</b>		
1. BlackRock/MSCI ACWI Ex-U.S. Index Non-Lendable Fund	MSCI ACWI Ex-U.S. Index	\$881.2
2. Artisan Partners	Global ex U.S. growth	282.8
3. Templeton Investment Counsel	Global ex U.S. value	317.5
4. Morgan Stanley Investment Management	Developed ex U.S. value	316.5
<b>Small cap</b>		
BlackRock Investment Management International	Growth (liquidating-accruals)	0.9
5. Pictet Asset Management	Value with growth	137.1
6. Harris Associates	Intrinsic value	210.8
<b>Emerging markets</b>		
BlackRock/Emerging Markets Index Non-Lendable Fund	MSCI Emerging Markets Index	104.4
7. Rexiter Capital Management	Core	178.8
Pictet Asset Management	Value	159.4
Templeton Asset Management		
Templeton Strategic Emerging Markets Fund II	Private placements with public	65.6
Templeton Strategic Emerging Markets Fund III	companies	27.8
<b>Total Non-U.S. Stock</b>		<b>\$2,682.8</b>

*\*Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

# Absolute Return Strategies Investments Summary

as of December 31, 2009 - (unaudited)

SERS Absolute Return Strategies are used to diversify the investments of the Fund. This mandate is expected to enhance the Fund's overall risk-adjusted profile, thereby increasing the Fund's long-term efficiency, as measured by the Fund's expected return per unit of risk (information ratio). SERS contracts with external fund-of-hedge funds (FOHF) investment advisors to manage these portfolios.

**Investment Objective:** SERS Absolute Return Strategies are intended to produce uncorrelated diversified return streams in the portfolio to help preserve and enhance the real value of the Fund over long periods of time. SERS Absolute Return Strategies are managed on a total return basis.

SERS' long-term investment objective for the Absolute Return Strategies is to achieve a total return, net-of-fees, that exceeds SERS Custom Absolute Return Benchmark.

SERS' 2009 *Investment Plan* targets a long-term allocation of 9.0% of Fund assets to Absolute Return Strategies.

**Market Exposure as of December 31, 2009:** Absolute Return Strategies had a \$5,555.8 million market value, approximately 22.7% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with six external investment advisors, but is in the process of redeeming portfolios in order to rebalance the Fund towards SERS 9.0% long-term allocation.

**Number of Investment Portfolios:** SERS had six Absolute Return Strategies portfolios managed by the six FOHF investment advisors.

**Type of Investment Portfolios:** As of December 31, 2009, SERS' Absolute Return Strategies were globally diversified across all major asset classes, including exposure to eight major strategies and 21 sub-strategies.

## SERS Absolute Return Strategies Investments

Investment Advisor	Investment Style	*Market Exposure as of 12/31/09 (\$ millions)
1. Arden	Absolute Return	\$366.9
2. Blackstone Alternative Asset Management	Absolute Return	1,411.1
3. Mesirow	Absolute Return	1,123.0
4. Morgan Stanley Alternative Investment Partners	Absolute Return	695.2
5. Pacific Alternative Asset Management Company	Absolute Return	1,537.2
6. Rock Creek	Absolute Return	422.4
<b>Total Absolute Return Strategies</b>		<b>\$5,555.8</b>

\*Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.



# Fixed Income Investments Summary

as of December 31, 2009 - (unaudited)

Fixed Income is one of six major asset classes that SERS uses to diversify the investments of the Fund. The SERS' investment plan diversifies Fixed Income investments and strategies. SERS contracts with external investment advisors to manage portfolios.

**Investment Objective:** The Fixed Income asset class is employed by the Fund because of its ability to generate current income from interest payments, increase the value of the Fund through the reinvestment of those interest payments, serve as a hedge against disinflation and/or deflation, and to help diversify the overall Fund. The Fixed Income asset class is managed on a total return basis.

In the Fixed Income asset class, SERS' long-term investment objective is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom Fixed Income Benchmark which is comprised of the Barclay's Aggregate, the Custom Intermediate TIPS, the Citigroup High Yield Market and J.P. Morgan Emerging Market Bond indices.

SERS' 2009 *Investment Plan* targets a long-term allocation of 15.0% of assets of the total Fund to the Fixed Income asset class. Of this amount, 40.0% is targeted to the core strategies and 60.0% to specialty strategies (high-yield and emerging market debt).

**Market Exposure as of December 31, 2009:** Fixed Income had a \$2,903.2 million market value, 11.9% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with 13 external investment advisors.

**Number of Investment Portfolios:** SERS had a total of 15 portfolios within the Fixed Income asset class managed by the 13 investment advisors.

**Type of Investment Portfolios:** The Fixed Income asset class is divided into core and specialty segments.

**Core:** Core portfolios invest in relatively liquid, high quality, fixed income securities with intermediate term durations that meet return, disinflation/deflation, high quality liquidity and diversification needs of the Fund. SERS had two actively managed core bond portfolios; one Custom Intermediate Duration Treasury Inflation Protection (TIPS) portfolio and one portfolio indexed to Barclay's Capital Credit. The two actively managed core portfolios totaled \$897.8 million. In addition, SERS had one \$93.3 million passively managed account benchmarked to the Barclay's Capital Aggregate Index. The combination of core portfolios represented 34.1% of the asset class.

**Specialty:** The specialty strategy portfolios (high-yield, emerging market debt, subordinated debt, mezzanine debt, and bank loan structured credit) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS has four corporate high yield portfolios with a market value of \$622.0 million, one high yield commercial mortgage-backed securities portfolio with a market value of \$240.5 million, one structured credit portfolio with a market value of \$63.9 million, and six emerging market debt portfolios with a market value of \$985.7 million. The specialty portfolios represent 65.9% of the asset class.

# Fixed Income Investments Summary *(continued)*

## SERS Fixed Income Investments

Fixed Income Investment Advisor	Investment Style	*Market Exposure As of 12/31/09 (\$ millions)
<b>Core</b>		
1. Standish Mellon	Domestic - Index	\$93.3
2. Taplin, Canida & Habacht	Active Domestic	123.2
3. NISA Investment Advisors	Active Intermediate Duration TIPS	774.6
<b>Specialty</b>		
4. Berwind - PA Capital Fund	PA Capital Fund (inactive)	4.7
5. Pyramis Global Advisors	Commercial Mortgage-backed Securities	240.5
6. Oaktree Capital Management	Mezzanine Fund (liquidating)	0.6
7. Stone Harbor	Global High Yield	535.0
Stone Harbor	Emerging Market Debt	253.0
8. Ashmore AEMDF	Emerging Market Debt - U.S. dollars	144.0
Ashmore LCD	Emerging Market Debt - local currency	180.0
9. W.R. Huff	High Yield (liquidating)	81.7
10. SEI Structured Credit Fund	High Yield Bank Loans	63.9
11. Gramercy Advisors	Emerging Market Debt - Absolute Return (liquidating)	74.2
12. Greylock Capital Management	Emerging Market Debt - Absolute Return (liquidating)	89.0
13. PIMCO	Emerging Market Debt	245.5
<b>Total Fixed Income</b>		<b>\$2,903.2</b>

*\*Includes securities and cash that the manager had available for investment. Numbers may not add due to rounding.*

# Cash Investments Summary

as of December 31, 2009 - (unaudited)

Historically, the Cash asset class has been employed by the Fund to provide for SERS' liquidity needs as well as accumulate funds for future investment.

The asset class emphasizes the use of higher credit quality debt instruments which are liquid and have short maturities and durations, or which have floating rates and have historically been invested in the Treasury's Short-Term Investment Fund (STIF).

**Investment Objective:** On an asset allocation basis, cash has the lowest expected return of all asset classes. Therefore, since SERS is a long-term investor, the objective is to minimize exposure to this asset and maintain a long-term allocation to the Cash asset class of zero.

Cash payments to meet the Fund's benefit payments and other obligations are sourced through employee and employer contributions, limited partnership distributions, and raising cash from public market managers from time to time. Contributions are a predictable source of cash flow, but are inadequate to meet continuing benefit obligations. Distributions from limited partnerships are unpredictable and dependent on market conditions and terms of partnership agreements. Accordingly, raising cash from public market equity, fixed income, and fund-of-hedge funds managers is required to meet monthly cash flow requirements.

In the Cash asset class, SERS' long-term investment objectives are to achieve a total return, net of fees, that exceeds the total return on 90 day U.S. Treasury Bills.

**Market Exposure as of December 31, 2009:** The effective cash exposure was approximately \$317.6 million or 1.2% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** The cash strategy uses The Pennsylvania State Treasury Department to manage the uninvested cash in the liquidity accounts.

**Number of Investment Portfolios:** SERS' cash portfolio is managed primarily by the Treasurer.

**Type of Investment Portfolios:** SERS Cash asset class currently employs a money market short-term investment strategy. The portfolio also contains the uninvested cash balances held by other SERS investment advisors in other asset classes. Cash is invested in high-quality, highly liquid, short-term investments.

In the aggregate, the State Treasury managed approximately \$510 million on behalf of SERS and SERS' external investment advisors as of December 31, 2009.

# Real Estate Investments Summary

as of December 31, 2009 - (unaudited)

Real Estate is one of six major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies real estate investments and balances real estate management styles. In accordance with the investment plan, SERS contracts with external investment advisors to manage portfolios.

**Investment Objective:** Real Estate investments are generally long-term, illiquid investments that, due to their high correlation with inflation, provide an inflation hedge and, due to their low correlation with stocks and bonds, provide diversification within the total portfolio. It is expected that the long-term total return (income and appreciation) for real estate will fall between that of stocks and bonds. The Real Estate asset class is managed on a total return basis.

In the Real Estate asset class, SERS' long-term investment objective is to achieve a total net return that exceeds the total return of the Townsend Stylized Benchmark for rolling five year periods. SERS' *2009 Investment Plan* targets a long-term allocation of 8.0% of assets to the Real Estate asset class.

Investments are made through commingled fund investments, limited partnerships, REITs and separate account portfolios where SERS contracts with external investment advisors to own properties directly or with other co-investors. SERS' Real Estate portfolio provides for diversification by:

- Transaction structure
- Property type
- Geographic location
- Development phase

**Market Value as of December 31, 2009:** Real Estate had an estimated \$2,114.4 million market value, approximately 8.7% of the total Fund. This market value represents September 30, 2009 reported numbers adjusted for cash flow that occurred in the fourth quarter 2009. Real estate market values and detailed property data is lagged by one quarter due to the timing of the receipt of the private market valuations and information.

**Number of Investment Advisors:** SERS had contracts with 26 external investment advisors to manage real estate portfolios as of September 30, 2009.

**Number of Investment Portfolios:** SERS had investments in 60 real estate portfolios managed by the 26 investment advisors.

**Type of Investment Portfolios:** The most recent property diversification data is as follows:

- 33% pooled funds, 67% separate accounts
- 23% office, 4% industrial, 8% retail, 24% residential, 14% hotel, 10% timber, 17% other (including senior and student housing, land and various niche property investments)
- 12% Pennsylvania, 29% East excluding PA, 27% West, 15% South, 6% Midwest, 11% International
- 23% of the market value of the separate accounts was invested in 17 investments located in Pennsylvania

# Real Estate Investments Summary *(continued)*

## SERS Real Estate Investments

Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	*Fair Value as of 9/30/09 (\$ millions)
1 AG Asia Realty Fund	2007	Diversified	Limited Partnership	\$20.7
2 Apollo Real Estate Fund III	1998	Diversified	Limited Partnership	12.0
3 Berwind Investment Partnership V	1999	Diversified	Limited Partnership	9.6
Berwind Investment Partnership VI	2002	Diversified	Limited Partnership	9.4
Berwind Investment Partnership VII	2005	Diversified	Limited Partnership	12.6
Berwind Investment Partnership VIII	2007	Diversified	Limited Partnership	5.9
4 Blackstone Real Estate Partners III	1999	Diversified	Limited Partnership	0.6
Blackstone Real Estate Partners IV	2003	Diversified	Limited Partnership	11.8
Blackstone Real Estate Partners V	2006	Diversified	Limited Partnership	26.4
Blackstone Real Estate Partners VI	2007	Diversified	Limited Partnership	14.4
5 Clerestory Small Cap Fund I	2007	Diversified	Limited Partnership	(2.1)
6 Colony Investors VIII	2007	Diversified	Limited Partnership	4.7
7 Fidelity Real Estate Opportunistic Income Fund	2007	Debt	Limited Partnership	28.3
8 Fillmore East Fund	2005	Debt	Limited Partnership	7.9
Fillmore West Fund	2008	Debt	Limited Partnership	5.5
9 Forest I.M.A.	1992	Timber	Separate Account	212.7
10 Grosvenor I.M.A.	1994	Diversified	Separate Account	315.4
Grosvenor Residential Investment Partners I	2007	Residential	Limited Partnership	2.5
11 Hawkeye Scout Fund I	2006	Diversified	Limited Partnership	12.9
12 Heitman America Real Estate Trust	2007	Diversified	Limited Partnership	52.8
Heitman I.M.A.	1988	Diversified	Separate Account	43.2
13 ING Clarion Real Estate Securities	1996	REITs	Separate Account	240.2
14 LaSalle I.M.A.	1994	Diversified	Separate Account	206.4
15 Lowe I.M.A.	1994	Diversified	Separate Account	330.4
16 Lubert Adler Fund II	1998	Diversified	Limited Partnership	1.6
Lubert Adler Fund III	2000	Diversified	Limited Partnership	2.5
Lubert Adler Fund IV	2004	Diversified	Limited Partnership	8.1
Lubert Adler Fund V	2006	Diversified	Limited Partnership	17.9
Lubert Adler Fund VI	2008	Diversified	Limited Partnership	9.4
17 OCM Real Estate Opp Fund A	1996	Diversified	Limited Partnership	1.8
OCM Real Estate Opp Fund II	1998	Diversified	Limited Partnership	1.6
OCM Real Estate Opp Fund III	2003	Diversified	Limited Partnership	13.9
TCW Special Credits Trust VI	1994	Diversified	Limited Partnership	0.3
18 Oxford GSA Strategy	2006	Diversified	Limited Partnership	19.5
19 Prudential Latin America Residential Fund III	2007	Residential	Limited Partnership	13.7
Prudential Latin America Retail Fund I	2006	Retail	Limited Partnership	21.0
Prudential Senior Housing Fund II	2001	Senior housing	Limited Partnership	18.4
Prudential Senior Housing Fund III	2006	Senior housing	Limited Partnership	27.5

# Real Estate Investments Summary *(continued)*

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	*Fair Value as of 9/30/09 (\$ millions)
20	Rockpoint Finance Fund I	2006	Diversified	Limited Partnership	\$1.7
	Rockpoint Real Estate Fund I	2004	Diversified	Limited Partnership	3.2
	Rockpoint Real Estate Fund II	2005	Diversified	Limited Partnership	13.1
	Rockpoint Real Estate Fund III	2007	Diversified	Limited Partnership	2.9
21	Sentinel Real Estate Fund	1986	Residential	Open-Ended Fund	46.1
22	Starwood Fund IV	1997	Diversified	Limited Partnership	1.6
	Starwood Fund V	1999	Diversified	Limited Partnership	1.2
	Starwood Fund VI	2001	Diversified	Limited Partnership	20.8
	Starwood Fund VII	2005	Diversified	Limited Partnership	23.0
	Starwood Fund VIII	2007	Diversified	Limited Partnership	(1.9)
23	UBS Trumbull Property Income Fund	1988	Diversified	Open-Ended Fund	60.4
	UBS Trumbull Property Fund	1988	Diversified	Open-Ended Fund	65.2
	UBS Multi-Family Trust	1999	Residential	Limited Partnership	0.4
24	Urdang Real Estate Securities	2002	REITs	Separate Account	36.5
25	Westbrook Fund II	1997	Diversified	Limited Partnership	1.8
	Westbrook Fund III	1998	Diversified	Limited Partnership	2.9
	Westbrook Fund IV	2000	Diversified	Limited Partnership	0.6
	Westbrook Fund V	2004	Diversified	Limited Partnership	1.8
	Westbrook Fund VI	2005	Diversified	Limited Partnership	9.4
	Westbrook Fund VII	2006	Diversified	Limited Partnership	21.6
26	Goldman Sachs: Whitehall V & VI	1994	Diversified	Limited Partnership	0.2
	Whitehall VII & VIII	1996	Diversified	Limited Partnership	0.6
<b>September 30, 2009 Real Estate Total</b>					<b>\$2,054.5</b>
4 <sup>th</sup> Quarter Net Cash Flow Adjustment					59.9
<b>December 31, 2009 Real Estate Total</b>					<b>\$2,114.4</b>

\*Fair values are lagged by one quarter due to the timing of the receipt of private market valuations and information. Numbers may not add due to rounding.

# Alternative Investments Summary

as of December 31, 2009 - (unaudited)

Alternative Investments is comprised of Venture Capital and Private Equity investments, both of which take the form of limited partnerships, and is one of six major asset classes that SERS uses to diversify the investments of the Fund.

## Venture Capital and Private Equity Defined

Venture Capital is the financing of young, rapidly growing companies, typically at three stages of development. (1) Seed and Early Stage: Seed is the form of venture capital that supports companies in their conceptual phase, i.e., a product and market are identified, and a corporation may have been formed. Early Stage financing supports companies pursuing a business plan but not yet generating meaningful revenues. The product has been developed and may have been shipped to customers for testing. Management positions have been filled and an operating team is in place. (2) Late Stage financing supports companies that have proven revenues, and are in the process of rolling out operations and building sales to achieve profitability. (3) Growth or Expansion Stage financing supports profitable or nearly profitable businesses that, lacking access to significant debt financing, need capital for growth and expansion. Companies at either the later stage or growth or expansion stage may be nearing a strategic sale to another company or an initial public offering.

Private Equity primarily refers to investments in the equity and subordinated debt of established companies. Private equity approaches undertaken by SERS' limited partnerships include: (1) Leveraged buyouts and management buyouts in which companies are acquired through the use of borrowed funds, or a combination of borrowed funds and contributed equity capital. The acquired company's assets serve as collateral for the borrowed funds, which are repaid from the company's cash flows. (2) Distressed debt investing involves: (a) deleveraging of debt-laden, but successful, companies by infusing capital to permit debt reduction in exchange for an equity stake in the company, or (b) acquiring debt of a troubled, sometimes bankrupt company, at steep discounts to face value, followed by assistance to return the company to profitability to permit selling of the debt securities at levels above the discounted purchase price. (3) Secondary interests in established private equity funds – these interests are purchased from other investors who seek liquidity or desire to realign or rebalance their investment portfolios, often for non-financial reasons. Such partnership interests can be purchased at significant discounts to net asset value and often occur when the acquired partnerships begin to realize profits.

**Investment Objective:** SERS' long term investment objective for Alternative Investments is to achieve a risk-adjusted total return, net of fees, in excess of the return generated by the Cambridge Private Equity Benchmark and the Cambridge Venture Capital Benchmark for respective holdings. SERS' *2009 Investment Plan* anticipates an Alternative Investment long-term allocation range with a midpoint of 14.0%.

**Market Value as of December 31, 2009:** The asset class total market value stood at \$5,739.2 million after adjusting the September valuation for subsequent cash flows in the 4th quarter. Alternative Investment market values lag one quarter due to timing of the receipt of private market valuations, reports and other information. These values do not include 4th quarter unrealized appreciation/depreciation. Alternative Investments represent 23.5% of the Fund. Sub-asset class market values and fund percentages were as follows:

### SERS Alternative Investments

	Unfunded Commitments (\$ millions)	Fair Value (\$ millions)	Percent of Total Fund
Venture Capital	\$653.5	\$1,459.5	6.0%
Private Equity	2,365.2	4,279.7	17.5
<b>Total Alternative Investments</b>	<b>\$3,018.7</b>	<b>\$5,739.2</b>	<b>23.5%</b>

**Number of Limited Partnerships:** As of December 31, 2009, SERS had commitments to 348 active Alternative Investments limited partnerships, 120 to Venture Capital partnerships and 228 to Private Equity partnerships.



# Alternative Investments Summary *(continued)*

**Portfolio:** SERS' Alternative Investment Program's scope has expanded over the years to include top investment funds nationally and internationally. The Program holds indirect investment interests in over 4,500 companies. The Venture Capital Program includes investments working to commercialize novel solutions to current and future challenges in information technology, communications, and medicine. In addition to direct fund investments, the Venture Capital Program includes investments in several fund-of-funds. A fund-of-funds is a limited partnership that, in turn, invests in other limited partnerships. Five of these fund-of-funds commitments have the strategic goal of enabling SERS to gain indirect exposure to many top-tier venture capital funds that SERS would otherwise have difficulty accessing directly. Another two of these commitments are to funds investing in minority-focused venture capital funds.

The Private Equity Program invests in buyout, distressed, international, and secondary oriented partnerships. Buyout transactions are privately negotiated or result from investment bank sponsored auctions, and are usually completed with present management in place; hostile acquisitions are generally avoided. Distressed investment managers employ differentiated strategies, i.e., they employ control or non-control approaches, and accordingly, have differing degrees of active influence over the companies in which they invest. European funds are attempting to capitalize on trends favoring the restructuring of large companies, generational succession in businesses established after World War II, cross-border business opportunities within the region since the formation of the European Economic Union and currency harmonization. Asian investments focus on the expanded opportunities in the region created by changing attitudes in many Asian countries regarding foreign investment, favorable demographic trends, globalization opportunities, and economic growth. The Program typically gains initial exposure to emerging markets and other target regions through the use of funds-of-funds. The portfolio's exposure to energy markets is also expanding. Additionally, SERS utilizes one manager to oversee stock distributions and another manager for co-investment opportunities.

**Alternative Investment Portfolio Exposure:** The Alternative Investment Program is well-diversified by stage of investment, industry focus, and geography. As of June 30, 2009, based on fair value, the program's exposure was as follows:

<b>By Fund Sub Sector:</b>		<b>By Portfolio Company Geography:</b>		<b>By Portfolio Company Industry:</b>	
U.S. Private Equity	42.5%	U.S. West Coast	14.2%	Healthcare	20.7%
U.S. Venture Capital	23.1%	U.S. Northeast	13.7%	Consumer/Retail & Services	20.3%
Non U.S. <sup>1/</sup>	16.4%	U.S. Southwest/Rockies	11.9%	Information Technology	14.5%
Distressed/Oppportunistic	10.5%	U.S. Southeast	9.8%	Financial Services	8.7%
Pennsylvania Related	5.8%	U.S. Midwest/Plains	9.1%	Software	8.2%
Other	1.8%	U.S. Mid-Atlantic	8.6%	Media/Communications	6.4%
<b>By Fund Style:</b>		U.S. Pacific Northwest	1.8%	Manufacturing	6.3%
LBO	39.9%	United Kingdom	5.5%	Energy	6.0%
Expansion Stage	18.5%	Denmark	3.1%	Electronics	2.5%
Early Stage	9.9%	Germany	3.0%	Other	6.4%
Start-Up	7.6%	France	1.9%		
Acquisition/Platform	6.9%	Netherlands	1.2%		
Senior Debt LBO	5.2%	Rest of World	16.2%		
Other	11.9%				

<sup>1/</sup> Some managers with a domestic investment focus may invest globally. Thus, Non U.S. exposure measured on a portfolio company basis will be greater.



# Venture Capital Committed, Drawn and Distributed

as of September 30, 2009 - (unaudited)

The capital committed column represents total dollars allocated from SERS to each limited partnership. Capital drawn is the portion of SERS capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The distributions column shows the value of capital and profits returned to SERS.

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. ABS Capital Partners VI	Later Stage	3/13/2009	\$40,000,000	\$8,602,655	\$0
2. Adams Capital Management II	Early Stage	10/1/1999	30,000,000	30,000,000	0
Adams Capital Management III	Early Stage	11/21/2000	30,000,000	30,000,000	4,761,905
3. Advanced Technology Ventures VI	Multi-Stage	3/9/2000	10,000,000	10,000,000	240,896
Advanced Technology Ventures VII	Multi-Stage	7/11/2001	27,000,000	25,784,700	6,580,846
4. Alloy Annex I	Seed/Early Stage	10/31/2003	5,000,000	4,500,000	0
Alloy Ventures 2000	Early Stage	5/19/2000	20,000,000	20,000,000	2,674,620
Alloy Ventures 2002	Early Stage	7/22/2002	25,000,000	23,000,000	5,604,706
Alloy Ventures 2005	Seed/Early Stage	8/11/2005	25,000,000	17,750,000	0
5. APAX Excelsior VI	Later Stage	7/3/2000	35,000,000	33,874,204	39,390,042
P/A Fund I	Later Stage	6/30/1993	30,000,000	30,000,000	66,195,539
P/A Fund III	Later Stage	3/31/1997	100,000,000	100,000,000	160,057,955
6. APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,743,967	2,014,209
APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	20,000,000	1,707,066
7. Artiman Ventures II	Seed/Early Stage	10/27/2006	25,000,000	11,625,000	0
8. Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,809,496	6,135,410
Atlas Venture Fund V	Early Stage	2/7/2000	37,200,000	36,880,800	12,826,952
Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	24,800,000	4,386,035
9. Austin Ventures IX	Early Stage	1/9/2006	15,000,000	10,228,162	881,830
Austin Ventures VIII	Early Stage	7/26/2001	20,932,140	21,100,362	5,988,820
10. Battery Ventures VIII	Diversified	8/13/2007	25,000,000	13,000,000	0
Battery Ventures VIII Side Car Fund	Diversified	8/29/2008	9,000,000	2,718,000	0
11. Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	7,235,444	2,695,041
12. Care Capital Investments III	Middle/Later Stage	2/8/2006	25,000,000	7,651,454	0
13. Charles River Partnership XI	Early Stage	2/15/2001	11,032,259	10,188,333	13,505,316
14. Clearstone Venture Partners III-A	Early/Later Stage	12/22/2004	25,000,000	21,750,000	0
15. Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	20,149,041	18,951,638
Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,900,000	16,442,911
Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	1,792,200
16. Devon Park Bioventures	Early/Later Stage	12/15/2006	10,842,697	4,049,127	701,849
17. Draper Fisher Jurvetson Fund VI	Early Stage	8/13/1999	8,000,000	8,000,000	3,127,845
Draper Fisher Jurvetson Fund VII	Early Stage	9/22/2000	20,000,000	19,800,000	3,178,088
18. Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	19,414,724	4,103,617
Draper Triangle Ventures II	Early Stage	10/13/2004	12,000,000	8,294,841	0
19. Edison Venture Fund III	Later Stage	3/31/1994	25,000,000	25,000,000	48,431,091

# Venture Capital Committed, Drawn and Distributed *(continued)*

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
20. Fairview Capital	Fund of Funds	9/30/1994	\$10,000,000	\$10,000,000	\$4,543,128
Fairview II	Fund of Funds	3/31/1998	10,000,000	9,850,000	2,941,704
21. Frazier Healthcare III	Early Stage	3/31/1999	30,000,000	29,925,000	10,090,022
Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	28,095,000	9,875,811
Frazier Healthcare V	Early/Later Stage	5/10/2005	30,000,000	21,660,000	2,742,043
22. Grotech PA III	Later Stage	6/29/1990	3,000,000	3,014,865	2,910,452
Grotech Partners V	Later Stage	9/30/1998	25,000,000	25,000,000	24,521,934
23. Guggenheim Technology Ventures I	Early/Later Stage	11/17/2008	2,000,000	760,000	281,530
24. Halpern Denny Fund II	Later Stage	3/31/1998	25,000,000	24,999,991	5,234,363
Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	24,212,500	18,274,268
25. HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	188,586,055	90,909,622
HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	56,625,000	2,577,151
HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	42,000,000	0
26. Healthcare Ventures III	Early Stage	9/30/1992	15,000,000	15,000,000	30,778,200
Healthcare Ventures V	Early Stage	12/31/1997	25,000,000	25,000,000	52,285,824
Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	35,000,000	3,462,611
Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	30,450,000	1,167,015
Healthcare Ventures VIII	Early Stage	8/22/2005	30,000,000	15,525,000	2,568,786
27. Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	24,437,500	18,788,669
Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	18,812,500	1,390,491
Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	12,763,199	0
28. I.P. II	Early Stage	12/17/2001	8,600,000	8,498,074	1,006,296
I.P. III	Seed/Early Stage	11/19/2004	10,500,000	8,610,000	519,843
I.P. IV	Seed/Early Stage	9/21/2007	14,000,000	3,920,000	0
29. Insight Venture Partners VI	Buyouts	8/21/2007	30,000,000	12,210,000	0
30. InterWest Partners IX	Early Stage	10/19/2005	20,000,000	14,000,000	1,106,563
InterWest Partners VIII	Early Stage	8/25/2000	25,000,000	22,500,000	5,323,829
InterWest Partners X	Early Stage	10/30/2008	30,000,000	4,500,000	0
31. J.H. Whitney Equity Fund III	Later Stage	3/31/1998	20,000,000	20,171,316	50,600,435
J.H. Whitney IV	Later Stage	2/1/2000	20,000,000	17,958,772	6,208,847
32. JMI Equity Fund V	Early/Later Stage	6/7/2005	24,000,000	22,157,205	12,977,009
JMI Equity Fund VI	Early/Later Stage	6/27/2007	40,000,000	18,720,000	0
33. JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	103,938,838	33,715,962
JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	95,203,551	25,852,624
JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	41,316,194	1,720,354
34. Keystone V	Later Stage	3/31/1998	25,000,000	25,000,000	2,082,064
35. Kline Hawkes Pacific	Early Stage	8/30/2000	15,000,000	15,100,498	5,089,301
36. Knightsbridge Venture Capital VI	Fund of Funds	12/7/2004	20,000,000	12,800,000	0
37. Lightspeed Venture Partners VII	Early Stage	2/27/2006	18,000,000	12,967,490	917,875
Lightspeed Venture Partners VIII	Early Stage	6/27/2008	15,000,000	3,037,500	0
38. Meritech Capital Partners II	Later Stage	1/2/2001	26,475,166	23,915,898	16,203,258
Meritech Capital Partners III	Later Stage	4/5/2006	35,000,000	25,025,000	966,232

# Venture Capital Committed, Drawn and Distributed *(continued)*

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
39. Mid-Atlantic III	Early Stage	6/30/1997	\$20,008,308	\$20,000,000	\$5,654,702
Mid-Atlantic Venture Fund IV	Early Stage	5/4/2000	30,000,000	30,000,000	1,835,977
NEPA Venture-II	Early Stage	12/31/1992	7,500,000	7,500,000	34,879,769
40. Morgenthaler Partners IX	Early Stage	11/25/2008	20,000,000	2,000,000	0
Morgenthaler Partners VII	Early Stage	7/26/2001	35,000,000	33,250,000	11,337,692
Morgenthaler Partners VIII	Diversified	10/3/2005	35,000,000	21,000,000	2,602,501
41. New Enterprise Associates 11	Early/Later Stage	3/1/2004	25,000,000	23,125,000	8,660,262
New Enterprise Associates 12	Early/Later Stage	6/26/2006	35,000,000	22,579,833	1,711,074
New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	3,333,252
New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	198,305,408
New Enterprise Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	97,217,571
New Enterprise Associates X	Early/Later Stage	12/11/2000	35,000,000	33,803,000	24,334,629
42. NewSpring Ventures II	Later Stage	12/5/2006	10,000,000	3,200,000	0
43. Novitas Capital III	Early Stage	4/17/2003	10,000,000	7,175,000	1,317,533
44. Oak Investment Partners XI	Later Stage	7/21/2004	35,000,000	35,000,000	7,401,464
Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	25,384,613	1,562,915
45. Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	24,859,455
Polaris Venture Partners III	Early Stage	1/21/2000	50,000,000	49,500,000	14,911,870
Polaris Venture Partners IV	Early Stage	9/30/2002	50,000,000	49,750,000	10,327,495
Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	25,000,000	0
46. Quaker BioVentures	Early Stage	2/20/2003	20,000,000	19,200,000	3,526,430
Quaker BioVentures II	Middle/Later Stage	4/3/2007	25,000,000	5,975,016	117,850
47. Sofinnova Venture Partners VII	Early Stage	1/18/2007	20,000,000	7,800,000	0
48. Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	43,102,148
49. Summit Accelerator Fund	Early Stage	11/15/1999	8,000,000	7,609,500	7,166,347
Summit IV	Later Stage	9/30/1995	25,000,000	24,250,000	182,700,129
Summit Partners Venture Capital Fund II	Diversified	9/22/2006	15,000,000	6,525,000	0
Summit V	Later Stage	3/31/1998	37,500,000	36,187,500	48,685,566
50. T.Rowe Price Stock Distribution Account	Stock Distribution Account	1/3/2005	0	301,565,535	279,668,840
51. TA/Advent VIII	Later Stage	6/30/1997	30,000,000	29,400,000	64,581,735
52. Three Arch Capital	Early Stage	12/20/2000	20,000,000	18,650,000	3,322,275
Three Arch Partners IV	Early/Later Stage	6/4/2004	20,000,000	13,050,000	1,941,653
53. TL Ventures III	Early Stage	3/31/1997	15,000,000	15,062,614	20,677,658
TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	25,582,809
TL Ventures V	Early Stage	10/18/2000	40,000,000	36,848,219	9,854,612
54. US Venture Partners VII	Early Stage	2/18/2000	13,750,000	13,750,000	2,015,871
US Venture Partners VIII	Early Stage	6/1/2001	26,250,000	25,830,000	7,152,911

# Venture Capital Committed, Drawn and Distributed *(continued)*

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
55. Weathergage Venture Capital	Fund of Funds	6/26/2007	\$25,000,000	\$6,750,000	\$0
56. Weston Presidio III	Later Stage	12/31/1998	35,000,000	31,989,586	22,536,318
Weston Presidio IV	Later Stage	6/21/2000	35,000,000	33,547,500	16,595,504
Weston Presidio V	Later Stage	12/8/2005	50,000,000	31,100,000	0
57. Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,951,175	3,484,303
<b>Total Active Venture Capital</b>			<b>\$3,442,037,091</b>	<b>\$3,095,392,845</b>	<b>\$2,074,977,071</b>

*Commitments as of 12/31/09*

*Cash flows as of 9/30/09*

## Inactive Venture Capital Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
<b>Total Inactive Venture Capital</b>	<b>\$214,700,000</b>	<b>\$203,789,346</b>	<b>\$445,692,391</b>

# Private Equity Committed, Drawn and Distributed

as of September 30, 2009 - (unaudited)

The capital committed column represents total dollars allocated from SERS to each limited partnership. Capital drawn is the portion of SERS capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The distributions column shows the value of capital and profits returned to SERS.

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. Abingworth Bioventures IV	Multi-Stage	9/1/2003	\$20,000,000	\$17,400,000	\$1,946,463
Abingworth Bioventures V	Multi-Stage	1/23/2007	33,775,000	11,941,494	541
2. ABRY Advanced Securities Fund	Senior Debt	8/1/2008	25,000,000	9,098,395	0
ABRY Broadcast Partners III	Buyouts	3/31/1997	25,000,000	22,490,420	21,761,021
ABRY Broadcast Partners IV	Buyouts	3/30/2001	35,000,000	24,773,600	25,865,780
ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	26,379,295	27,795,020
ABRY Partners V	Buyouts	7/29/2005	45,000,000	42,273,290	202,738
ABRY Partners VI	Mid Market Buyouts	3/26/2008	50,000,000	14,468,076	0
ABRY Senior Equity II	Private Equity	7/27/2006	30,000,000	20,847,667	1,610,043
3. ABS Capital Partners III	Buyouts	3/31/1999	35,000,000	29,428,915	17,343,591
ABS Capital Partners IV	Buyouts	10/13/2000	35,000,000	30,984,280	52,079,592
ABS Capital Partners V	Buyouts	11/14/2005	20,000,000	18,998,852	1,304,092
4. Accel Europe	Early Stage	7/2/2001	15,000,000	11,350,000	0
5. Advent International GPE VI-A	Mid Market Buyouts	7/7/2008	35,000,000	7,000,000	0
Advent Latin American Fund IV	Buyouts	8/2/2007	30,000,000	21,600,000	0
6. AG Capital Recovery Partners II	Distressed Debt	10/1/2001	17,600,000	17,695,470	26,989,866
AG Capital Recovery Partners IV	Distressed Debt	2/4/2003	50,000,000	35,415,216	54,685,621
AG Capital Recovery Partners V	Distressed Debt	4/17/2006	20,000,000	18,700,000	1,180,000
7. Alpha Private Equity Fund 4	Mid Market Buyouts	5/15/2002	26,580,000	35,443,050	71,115,386
Alpha Private Equity Fund 5	Mid Market Buyouts	4/1/2006	67,660,800	47,354,529	8,015,060
8. APAX Europe IV	Buyouts	3/31/1999	35,000,000	29,909,800	37,636,346
APAX Europe V	Buyouts	4/27/2001	70,000,000	70,385,477	125,087,449
APAX Europe VI	Buyouts	5/19/2005	76,349,190	65,298,970	25,394,049
APAX Europe VII	Buyouts	6/27/2007	132,900,000	67,536,250	0
APAX Germany II	Middle/Later Stage	6/30/1997	8,737,262	8,455,477	17,228,871
APAX UK Ventures VI	Middle/Later Stage	12/31/1997	6,918,899	6,933,887	13,109,711
9. Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,823,494	99,551,642
Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	46,528,159	88,495,748
Apollo Investment Fund VI	Buyouts	7/19/2006	40,000,000	34,770,240	749,135
10. Asia Alternatives Capital Partners	Fund of Funds	6/26/2007	50,000,000	13,567,265	542,196
Asia Alternatives Capital Partners II	Fund of Funds	3/7/2008	50,000,000	2,927,419	136,628
11. Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,330,077	8,031,451
12. Audax Private Equity Fund	Mid Market Buyouts	5/25/2000	35,000,000	36,712,082	50,009,158
Audax Private Equity Fund II	Mid Market Buyouts	6/17/2005	25,000,000	25,517,169	5,243,759
Audax Private Equity Fund III	Mid Market Buyouts	11/7/2007	37,000,000	21,388,017	190,528

# Private Equity Committed, Drawn and Distributed *(continued)*

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
13. Avenue Asia Special Situations Fund IV	Distressed Debt	6/30/2006	\$50,000,000	\$24,612,762	\$8,850
Avenue Europe Special Situations Fund	Distressed Debt	7/30/2008	34,750,000	27,249,392	96,125
Avenue Special Situations Fund III	Distressed Debt	8/25/2003	50,000,000	40,080,214	62,038,320
Avenue Special Situations Fund IV	Distressed Debt	3/27/2006	50,000,000	50,000,000	0
Avenue Special Situations Fund V	Distressed Debt	6/4/2007	70,000,000	61,392,880	233,973
14. AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	19,894,989	25,926,454
AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	10,572,592	13,266,873
AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	24,284,312	868,236
15. B III Capital Partners	Distressed Debt	9/30/1997	35,000,000	34,503,390	50,307,727
16. Bain Capital Asia Fund	Distressed Debt	10/18/2007	12,000,000	5,520,000	0
Bain Capital Europe III	Buyouts	7/10/2008	76,555,500	5,876,025	0
Bain Capital Fund IX	Buyouts	4/10/2006	75,000,000	72,937,500	4,937,278
Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	24,812,500	40,556,249
Bain Capital Fund VIII-E	Buyouts	12/15/2004	13,405,000	12,415,468	2,967,960
Bain Capital Fund X	Buyouts	1/15/2008	90,000,000	24,075,000	0
Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	15,000,000	14,550,000	0
Bain Capital X Coinvestment Fund	Buyouts	7/28/2008	5,000,000	700,000	0
17. Baring India Private Equity Fund III Limited	Mid Market Buyouts	10/10/2008	5,000,000	542,697	0
Baring Vostok Private Equity Fund IV	Buyouts	3/10/2008	30,000,000	7,421,371	0
18. BC European Capital VII	Buyouts	7/28/2000	37,740,202	37,754,746	59,068,229
BC European Capital VII Top Up	Buyouts	7/2/2001	12,278,596	12,278,596	16,619,528
BC European Capital VIII	Buyouts	12/13/2005	97,635,000	58,856,889	544,258
19. Berkshire Fund VI	Mid Market Buyouts	7/11/2002	20,000,000	18,294,834	13,900,023
Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	8,378,359	687,574
20. Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,842,270	93,290,357
Blackstone Capital III	Buyouts	12/31/1997	75,000,000	74,694,157	115,185,603
Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	62,060,926	84,155,235
Blackstone Capital Partners V	Buyouts	5/30/2006	150,000,000	120,862,388	6,958,275
Blackstone Communications Partners I	Buyouts	8/29/2000	25,000,000	24,747,542	20,987,871
21. Brait IV	Mid Market Buyouts	12/11/2006	25,000,000	16,052,245	597,087
22. Brynwood Partners V	Mid Market Buyouts	7/31/2005	10,000,000	9,330,819	757,118
Brynwood Partners VI	Mid Market Buyouts	*	10,000,000	0	0
23. Centerbridge Capital Partners I	Distressed Debt	2/27/2007	50,000,000	37,052,691	38,555
24. Cerberus Institutional Partners	Distressed Debt	3/5/1999	35,000,000	35,000,000	76,576,855
Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	61,875,000	0
Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	35,000,000	22,321,354	12,824,153
Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	68,626,640
25. Charterhouse Capital Partners IX	Buyouts	4/28/2009	79,290,000	4,423,872	0
Charterhouse Capital Partners VII	Buyouts	1/17/2003	52,120,000	53,121,806	86,164,523
Charterhouse Capital Partners VIII	Buyouts	4/19/2006	74,400,000	64,014,184	0
26. Charterhouse Equity Partners II	Buyouts	3/31/1994	40,000,000	43,908,228	100,919,498
Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	74,801,860
27. Chequers Capital XV	Buyouts	7/5/2006	31,434,000	14,969,348	934,078
28. CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	20,000,000	15,000,000	5,922,676



# Private Equity Committed, Drawn and Distributed *(continued)*

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
29. Clayton Dubilier & Rice V	Buyouts	6/30/1995	\$50,000,000	\$49,756,029	\$49,826,483
Clayton Dubilier & Rice VI	Buyouts	12/31/1998	50,000,000	36,211,768	55,410,949
30. Clessidra Capital Partners II	Buyouts	11/5/2008	31,716,000	4,808,044	3,150
31. Code Hennessy & Simmons	Mid Market Buyouts	9/28/1989	10,000,000	9,650,000	29,205,907
Code Hennessy & Simmons II	Mid Market Buyouts	6/30/1994	20,000,000	20,000,000	69,692,351
Code Hennessy & Simmons III	Mid Market Buyouts	9/30/1997	40,000,000	38,724,000	55,634,838
Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	100,000,000	132,813,640
Code Hennessy & Simmons V	Mid Market Buyouts	11/10/2005	50,000,000	40,259,408	0
32. Cognetas Fund II	Buyouts	11/2/2005	49,468,400	35,091,911	2,566,249
33. CVI Global Value Fund	Distressed Debt	2/23/2007	60,000,000	55,151,667	825,601
34. DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	82,833,683	98,557,046
DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	85,633,849	106,865,434
35. Dover Street VII	Secondaries	7/2/2008	30,000,000	5,720,287	215,069
36. Elevation Partners	Private Equity	11/10/2005	35,000,000	22,869,332	4,697,976
37. Energy Spectrum Partners IV	Mid Market Buyouts	12/15/2004	50,000,000	51,261,408	23,946,324
Energy Spectrum Partners V	Mid Market Buyouts	7/9/2007	30,000,000	14,137,651	1,748
38. Eureka II	Small Buyouts	1/30/2006	20,000,000	8,655,307	291,601
39. Excelsior Capital Asia Partners III	Growth Equity	8/17/2006	25,000,000	14,293,800	82,385
40. First Reserve Fund X	Buyouts	10/28/2004	30,000,000	30,000,000	34,603,899
First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	46,241,847	0
First Reserve Fund XII	Buyouts	11/19/2008	50,000,000	14,736,844	5,288
41. Francisco Partners	Mid Market Buyouts	7/27/2000	50,000,000	44,239,282	31,172,489
Francisco Partners II	Mid Market Buyouts	7/10/2006	30,000,000	21,000,000	6,355,957
42. Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	55,213,406
43. Great Hill Equity Partners	Mid Market Buyouts	4/12/1999	30,000,000	30,000,000	29,994,856
Great Hill Equity Partners II	Mid Market Buyouts	3/28/2001	35,000,000	35,063,336	44,268,235
Great Hill Equity Partners III	Mid Market Buyouts	3/7/2006	35,000,000	29,575,000	4,200,000
Great Hill Equity Partners IV	Mid Market Buyouts	9/8/2008	25,000,000	2,500,000	0
44. Gryphon Partners II	Mid Market Buyouts	11/3/1999	35,000,000	33,714,209	28,683,854
Gryphon Partners III	Mid Market Buyouts	9/8/2004	30,000,000	24,149,592	8,659,227
45. GTC&R V	Buyouts	3/31/1997	11,400,000	11,400,000	20,502,976
GTC&R VI	Buyouts	9/30/1998	50,000,000	50,000,000	41,712,557
GTC&R VII	Buyouts	3/15/2000	55,000,000	50,074,671	120,566,849
GTCR IX	Early Stage	12/1/2006	50,000,000	21,628,046	3,161,153
GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	79,862,235
46. H.I.G. Bayside Debt & LBO Fund II	Distressed Debt	6/17/2008	30,000,000	6,050,000	0
47. Hancock IPEP II (Harbourvest II)	Fund of Funds	6/30/1997	25,000,000	24,357,775	32,886,929
Harbourvest IPEP IV	Fund of Funds	4/9/2001	40,000,000	36,000,000	32,483,252
HarbourVest IPEP III	Fund of Funds	6/30/1998	40,000,000	38,800,000	42,699,083
HIPEP V-Asia Pacific & Rest of World Partnership Fund	Buyouts	5/9/2006	30,000,000	17,595,316	0
48. Hellman & Friedman Capital Partners VI	Buyouts	6/5/2007	125,000,000	79,236,588	1,237,580
Hellman Friedman IV	Buyouts	2/14/2000	75,000,000	67,317,209	175,097,414
Hellman Friedman V	Buyouts	12/20/2004	80,000,000	70,554,601	66,263,337



# Private Equity Committed, Drawn and Distributed *(continued)*

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
49. InterMedia Partners VII	Diversified	1/5/2007	\$15,000,000	\$12,731,737	\$142,200
50. Invemed Catalyst Fund	Mid Market Buyouts	10/19/1999	16,754,888	13,707,572	8,614,423
51. J.H. Whitney V	Later Stage	3/29/2001	20,000,000	22,848,040	36,652,415
J.H. Whitney VI	Buyouts	1/5/2006	50,000,000	42,043,322	8,221,368
52. J.W. Childs Equity Partners III	Mid Market Buyouts	8/20/2002	40,000,000	39,572,228	28,352,594
53. JP Morgan U.S. Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	49,119,086	19,972,070
54. Kelso VI	Buyouts	9/30/1998	75,000,000	68,484,560	84,793,059
Kelso VII	Buyouts	10/18/2004	40,000,000	39,443,518	17,202,231
Kelso VIII	Buyouts	11/29/2007	150,000,000	14,899,026	110,938
55. Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,495,850	18,587,584
Landmark Equity Partners V	Secondaries	12/31/1995	19,624,113	19,434,947	23,369,953
56. Leeds Equity Partners IV	Mid Market Buyouts	11/12/2004	20,000,000	19,867,964	2,153,155
57. Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	47,187,388
Lexington Capital Partners III	Secondaries	1/26/1999	35,000,000	34,516,449	37,808,959
Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	73,149,242	80,689,506
Lexington Capital Partners VI	Secondaries	10/21/2005	50,000,000	39,702,839	8,411,855
58. Lime Rock Partners III	Later Stage	3/7/2005	15,000,000	14,263,143	2,886,836
Lime Rock Partners IV	Later Stage	11/16/2006	25,000,000	18,630,793	0
Lime Rock Partners V	Later Stage	10/2/2008	42,500,000	10,567,559	0
Lime Rock Resources	Diversified	12/28/2005	20,000,000	15,415,302	3,139,316
59. LLR Equity Partners	Mid Market Buyouts	2/4/2000	25,000,000	24,357,320	47,151,516
LLR Equity Partners II	Mid Market Buyouts	1/29/2004	25,000,000	23,750,000	4,526,511
LLR Equity Partners III	Mid Market Buyouts	7/24/2008	30,000,000	6,567,002	419,302
60. Madison Dearborn Capital Partners	Buyouts	3/31/1993	15,000,000	14,449,521	49,148,757
Madison Dearborn Capital Partners II	Buyouts	3/31/1997	40,000,000	39,999,996	91,309,942
Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	75,186,728	104,981,618
Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	90,032,956	69,666,693
Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	61,665,050	1,474,818
Madison Dearborn Capital Partners VI	Buyouts	5/27/2008	50,000,000	7,331,269	0
61. Matlin Patterson Global Opportunities Partners	Distressed Debt	5/31/2001	35,000,000	30,007,727	49,391,121
Matlin Patterson Global Opportunities Partners II	Distressed Debt	6/30/2004	30,000,000	30,489,132	11,455,554
62. Media/Communication III	Buyouts	6/30/1997	25,000,000	23,750,000	36,758,894
Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	5,010,893
Media/Communications Ventures Fund V	Buyouts	9/27/2000	35,000,000	34,549,705	14,935,375
63. Meridian Venture Partners II	Buyouts	2/11/2005	10,000,000	10,000,000	823,344
64. New York Life Capital Partners III	Co-investments	6/30/2006	50,000,000	42,770,705	1,531,440
New York Life Capital Partners IV	Co-investments	4/4/2008	100,000,000	20,485,437	6,969
65. Newbridge Asia III	Buyouts	2/15/2001	15,000,000	15,362,374	13,108,508
Newbridge Asia IV	Buyouts	9/27/2005	40,000,000	38,946,562	5,407,310
66. Nordic Capital V	Buyouts	5/7/2004	40,000,000	44,158,023	16,980,854
Nordic Capital VI	Buyouts	7/25/2006	54,441,000	61,525,770	0
Nordic Capital VII	Buyouts	5/2/2008	100,237,900	23,890,053	0

# Private Equity Committed, Drawn and Distributed *(continued)*

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
67. Oakhill Capital Partners	Buyouts	5/17/1999	\$50,000,000	\$53,640,806	\$66,351,420
68. Oaktree Capital Management	Diversified	5/28/2004	40,000,000	40,581,778	28,758,165
OCM Opportunities Fund	Distressed Debt	1/31/1996	24,000,000	24,000,000	39,136,887
OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	59,916,358
OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	88,384,584
OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	68,250,000	113,482,950
OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	52,963,140
OCM Opportunities Fund VI	Distressed Debt	9/28/2005	40,000,000	40,000,000	4,014,848
OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	40,000,000	233,643
OCM Opportunities Fund VII b	Distressed Debt	6/3/2008	40,000,000	32,000,000	0
OCM Principal Opportunities	Distressed Debt	12/31/1996	25,000,000	25,000,000	36,194,086
OCM Principal Opportunities Fund IV	Distressed Debt	1/24/2007	20,000,000	20,000,000	38,751
OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	34,191,420
OCM/GFI Power Opportunities Fund II	Buyouts	5/9/2005	25,000,000	12,568,107	20,060,096
69. Palamon European Equity	Buyouts	7/23/1999	31,499,291	36,305,881	26,637,626
Palamon European Equity II	Diversified	10/25/2005	40,114,200	25,163,337	0
70. Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	21,544,332	13,902,439
71. Patriot Financial Partners	Mid Market Buyouts	6/12/2008	25,000,000	4,916,141	45,041
72. Permira European Fund	Buyouts	9/30/1997	33,789,023	32,159,947	84,005,717
Permira European Fund II	Buyouts	6/7/2000	47,979,751	45,672,612	78,101,935
Permira European Fund III	Buyouts	1/12/2004	112,640,170	111,535,500	147,341,067
Permira IV	Buyouts	12/14/2006	126,870,000	83,923,230	0
Permira UK Venture Fund III	Middle/Later Stage	3/31/1991	9,063,438	8,946,988	26,106,191
Permira UK Venture Fund IV	Middle/Later Stage	12/31/1995	15,000,000	15,993,572	22,721,533
73. Pitango Venture Capital Fund IV	Diversified	7/19/2004	20,000,000	16,851,534	5,476,274
Pitango Venture Capital Fund V	Seed/Early Stage	8/22/2007	30,000,000	10,350,000	0
74. PNC Equity Partners II	Mid Market Buyouts	8/30/2007	15,000,000	6,562,297	60,437
75. Providence Equity Partners IV	Mid Market Buyouts	11/27/2000	25,000,000	22,891,342	30,006,046
Providence Equity Partners V	Mid Market Buyouts	4/4/2005	45,000,000	40,059,259	0
Providence Equity Partners VI	Buyouts	3/16/2007	50,000,000	24,972,277	185,621
76. S.B. Energy Partners I	Buyouts	7/27/2007	25,000,000	6,056,281	0
77. Sankaty Credit Opportunities III	Distressed Debt	3/8/2007	50,000,000	50,000,000	563,636
Sankaty Credit Opportunities IV	Distressed Debt	7/15/2008	40,000,000	24,000,000	0
78. SCP Private Equity Partners II	Buyouts	6/15/2000	25,000,000	23,991,072	5,972,493
79. Segulah IV	Mid Market Buyouts	9/25/2008	15,688,890	2,165,089	0
80. ShoreView Capital Partners	Buyouts	6/16/2003	38,000,000	29,611,278	31,948,748
ShoreView Capital Partners II	Buyouts	3/27/2008	40,000,000	5,357,024	162,182
81. Siguler Guff BRIC Opportunities Fund	Fund of Funds	5/8/2006	10,000,000	7,358,299	1,072,430
Siguler Guff BRIC Opportunities Fund II	Fund of Funds	4/9/2008	25,000,000	5,503,075	72,541
82. Sterling Capital Partners I	Buyouts	10/31/2002	15,000,000	14,979,168	12,498,483
Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	26,282,498	5,873,791
Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	12,708,414	0
83. Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	97,134,500	51,966,960	3,809,790
Summit Ventures VI	Later Stage	3/23/2001	62,000,000	63,343,733	51,506,187

# Private Equity Committed, Drawn and Distributed *(continued)*

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
84. TA IX	Later Stage	9/20/2000	\$45,000,000	\$43,650,000	\$58,991,188
TA X	Middle/Later Stage	4/25/2006	70,000,000	61,075,000	8,050,000
85. Thomas H. Lee Equity Fund V	Buyouts	7/3/2001	100,000,000	101,811,753	89,659,664
Thomas H. Lee Equity Fund VI	Mid Market Buyouts	11/14/2006	50,000,000	27,174,823	342,587
86. TPG Asia V	Buyouts	2/19/2008	22,500,000	6,029,779	7,383
TPG Partners II	Buyouts	6/30/1997	75,000,000	72,111,267	126,658,006
TPG Partners III	Buyouts	1/13/2000	75,000,000	64,318,624	134,879,777
TPG Partners IV	Buyouts	12/29/2003	30,000,000	27,545,405	14,423,247
TPG Partners V	Buyouts	6/27/2006	100,000,000	71,860,284	3,642,608
TPG Partners VI	Buyouts	5/22/2008	45,000,000	5,086,884	11,366
87. UMS Partners Fund I	Distressed Debt	2/15/2005	5,000,000	5,000,000	3,004,752
88. Versa Capital Partners	Distressed Debt	10/16/2005	20,000,000	19,811,753	7,181,739
Versa Capital Partners II	Distressed Debt	7/31/2008	15,000,000	903,689	0
89. Vestar Capital Partners III	Buyouts	6/30/1997	25,000,000	24,362,534	23,541,126
Vestar Capital Partners IV	Mid Market Buyouts	1/25/2000	100,000,000	96,364,785	100,629,722
Vestar Capital Partners V	Mid Market Buyouts	1/25/2006	50,000,000	37,602,620	3,066,390
90. W Capital Partners II	Secondaries	8/8/2007	40,000,000	18,020,761	231,909
91. Yucaipa American Alliance Fund II	Mid Market Buyouts	1/13/2009	25,000,000	9,997,816	14,385
<b>Total Active Private Equity</b>			<b>\$9,625,474,304</b>	<b>\$7,324,972,628</b>	<b>\$5,932,854,527</b>

\*Not Funded as of 9/30/09

Commitments as of 12/31/09

Cash flows as of 9/30/09

## Inactive Private Equity Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
<b>Total Inactive Private Equity</b>	<b>\$318,830,323</b>	<b>\$315,731,667</b>	<b>\$525,066,137</b>

# Inflation Protection Investments Summary

as of December 31, 2009 - (unaudited)

Inflation Protection is one of six major asset classes that SERS uses for investments of the Fund. The objective of this asset class is to reduce the deleterious affects of inflation by investing in strategies that specifically respond to expected and unexpected inflation. In accordance with SERS' investment plan, SERS contracts with external investment advisors to manage portfolios.

**Investment Objective:** Inflation Protection investments are employed by the Fund to provide diversification within the total Fund and to act as a hedge against inflation. The asset class is composed of actively managed commodities; TIPS; and a diversified inflation protection portfolio that includes commodities, inflation-sensitive stocks, and bonds. The strategies that make up the asset class were chosen for their inflation protection properties; commodities historically have the highest correlation to inflation, and TIPS are adjusted periodically for actual changes in inflation. The Inflation Protection strategies also provide diversification and low correlation to other assets in the portfolio, and are expected to outperform stocks and bonds during periods of rising inflation, but may underperform when inflation is stable or falling.

SERS' long-term investment objective in the Inflation Protection asset class is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom Inflation Protection Benchmark.

SERS' *2009 Investment Plan* targets a long-term allocation of 7.0% of assets to Inflation Protection. Within this 7% allocation, 28% is targeted to the TIPS portfolio, 36% is targeted to the active diversified inflation protection portfolio, and the remaining 36% is targeted to the active multi-manager commodity portfolio.

**Market Exposure as of December 31, 2009:** Inflation protection strategies had a \$1,560.7 million market exposure, 6.4% of the total Fund's \$24,435.6 million.

**Number of Investment Advisors:** SERS had contracts with three external investment advisors.

**Number of Investment Portfolios:** SERS had three Inflation Protection portfolios managed by the three investment advisors.

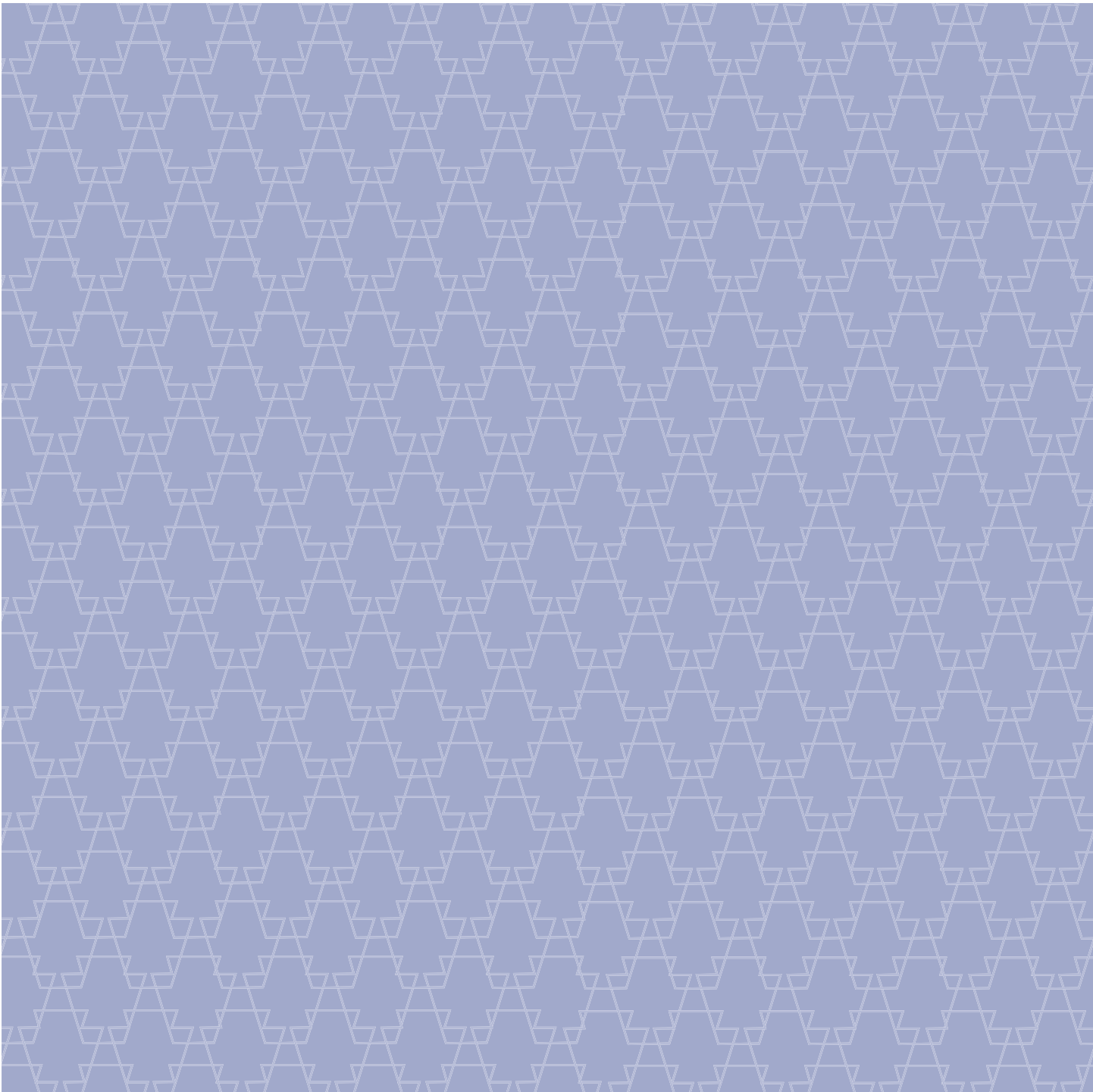
**Types of Investment Portfolios:** As of December 31, 2009, 40.7% of SERS' Inflation Protection allocation was invested in intermediate-duration TIPS that generate higher incremental return above typical cash instruments. Another 27.7% of the Inflation Protection allocation was in the actively managed diversified inflation protection portfolio which invests in commodities, inflation-sensitive global equity and TIPS. The remaining 31.6% was in the multi-manager commodity product, which employs five underlying commodities managers across the various commodity sectors (energy, precious metals, industrial metals and agriculture).

# Inflation Protection Investments Summary *(continued)*

## SERS Inflation Protection Investments

	<b>Inflation Protection Investment Advisor</b>	<b>Investment Style</b>	<b>*Market Exposure As of 12/31/09 (\$ millions)</b>
1.	NISA Investment Advisors	TIPS	\$634.4
2.	Wellington Management Company	Diversified inflation protection portfolio	432.6
3.	Blackstone Alternative Asset Management	Fund-of-commodity funds	493.7
<b>Total Inflation Protection</b>			<b>\$1,560.7</b>

*\* Includes securities and cash that the manager had available for investment. Numbers may not add due to rounding.*



# Pennsylvania Investments Summary

as of December 31, 2009 - (unaudited)

The Board, employees of SERS and agents of the Board stand in a fiduciary relationship to the members and beneficiaries of the System regarding the investments and disbursements of the Fund. Subject to "prudent investor" investment responsibilities contained in the Retirement Code and the Fiscal Code, the Board has exclusive control and management of the Fund and full power to invest the assets of the Fund. The Board adopted a formal *Statement of Investment Policy* in 1979, which was last revised effective April 2009 to reflect and incorporate subsequent legislative and policy changes governing investments. Where investment characteristics including yield, risk and liquidity are equivalent, the Board's policy favors investments that have a positive impact on the economy of Pennsylvania.

The most significant impact the Fund can have on the State's economy is to manage an overall program that achieves a fully funded status and lowers the employer contributions to the Fund below the normal cost. The Fund has been successful in these endeavors, maintaining a well funded status since 1992 and reducing the employer contributions from over 18% in 1981 to the current statutory rate of 4.01%. The reduction of such contributions may then be used by the legislature for purposes it deems most important to Pennsylvania citizens and taxpayers, such as tax reduction, economic development or other priorities. Nevertheless, the Fund also seeks to invest in State-based companies and other State entities when investment characteristics are equivalent.

**Market Value of Pennsylvania Investments as of December 31, 2009:** SERS' assets had an unaudited market value in Pennsylvania investments of approximately \$1,338.4 million (5.5% of SERS Fund).

## SERS Pennsylvania Investments By Asset Class (\$ millions)

Asset Class	Total PA Fair Value
Stocks	\$414.2
Fixed Income	23.6
Real Estate	286.3
Venture Capital	97.5
Private Equity	516.8
<b>Total Pennsylvania Investments</b>	<b>\$1,338.4</b>

SERS investment portfolios have historically held investments in Pennsylvania firms, as some large national firms are headquartered in Pennsylvania, including Comcast Corporation (Philadelphia), PNC Financial Services (Pittsburgh), Air Products & Chemicals, Inc. (Allentown), H. J. Heinz Company (Pittsburgh), and Sunoco (Philadelphia). In addition, SERS has invested in portfolios that are designed to give emphasis to investments in Pennsylvania while meeting the fiduciary standards mentioned previously.

### Stocks

SERS' Pennsylvania stock universe is comprised of 352 publicly-traded corporations which: 1) name their headquarters as Pennsylvania and have Pennsylvania employees or operations; or 2) have Pennsylvania-based employment exceeding 25% of total corporate employment. The following are some of the top performing Pennsylvania stocks for 2009.



# Pennsylvania Investments Summary *(continued)*

## Top-Performing Pennsylvania Stocks

Company	Location	Return for 2009
<b>The Bon-Ton Stores Inc.</b> The Bon-Ton Stores, Inc. sells moderately priced, brand name fashions and accessories for men, women, and children. The Company also sells cosmetics, jewelry, china, housewares, and other items through its chain department stores. Bon-Ton operates in secondary markets in Pennsylvania, Maryland, New York, Massachusetts, West Virginia, and New Jersey.	York	880%
<b>Entercom Communications Corp.</b> Entercom Communications Corp. is a radio broadcasting company with operations in the United States. The Company owns and operates FM and AM stations in various markets. Entercom's stations provide a variety of programming such as music and news/talk.	Bala Cynwyd	475%
<b>Rite Aid Corporation</b> Rite Aid Corporation operates a retail drugstore chain in various states and the District of Columbia. The Company's stores sell prescription drugs, as well as other products such as nonprescription medications, health and beauty aids, and cosmetics.	Camp Hill	387%
<b>Unisys Corporation</b> Unisys Corporation is a worldwide information technology services and solutions company. The Company's services include systems integration, outsourcing, infrastructure, server technology and consulting. The Company primarily serves the financial services, public sector, communications, transportation, commercial and media markets.	Blue Bell	354%
<b>Rex Energy Corporation</b> Rex Energy Corporation is an independent oil and gas company operating in the Illinois Basin, the Appalachian Basin and the southwestern region of the United States.	State College	308%
<b>ICT Group, Inc.</b> ICT Group, Inc. provides call center teleservices for sales, marketing, and customer care. The Company manages call centers in the United States, Europe, Canada, and Australia. ICT supports inbound and outbound calling for domestic and multinational corporations and in the financial, insurance, telecommunications, healthcare, media, energy, and hospitality industries.	Newtown	257%
<b>Kulicke and Soffa Industries</b> Kulicke and Soffa Industries, Inc. designs, manufactures, and markets capital equipment, related spare parts, and packaging materials used to assemble semiconductor devices. The Company also services, maintains, repairs, and upgrades assembly equipment. Kulicke's equipment is used in wire bonding systems, wafer dicing saws, and die bonders.	Fort Washington	217%
<b>Horsehead Holding Corp.</b> Horsehead Holding Corporation produces specialty zinc and zinc-based products. The Company also owns and operates a 110 megawatt coal-fired power plant. Horsehead's products are used in a wide variety of applications, including the galvanizing of fabricated steel products and as components in rubber tires, alkaline batteries, paint, chemicals, and pharmaceuticals.	Pittsburgh	171%
<b>Charming Shoppes</b> Charming Shoppes, Inc. retails women's specialty apparel. The Company operates chains of women's large-size specialty apparel stores. Charming Shoppes also retails apparel, accessories, footwear, and gifts through catalogs.	Bensalem	165%
<b>HFF Inc.</b> HFF Inc. provides commercial real estate and capital markets services to the commercial real estate industry in the United States. The Company provides capital markets services such as debt placement, investment sales, structured finance, private equity investment banking and advisory services, note sales and advisory services and commercial loan servicing.	Pittsburgh	155%

# Pennsylvania Investments Summary *(continued)*

Emerald Advisers, Inc. of Lancaster and Mellon Capital Management Corporation actively manage portfolios principally derived from the mid/small cap stocks in SERS' Pennsylvania stock universe. These two portfolios, plus the Pennsylvania stocks held in SERS other stock portfolios, provided a total of \$414.2 million invested in Pennsylvania stocks.

## **Fixed Income**

SERS had approximately \$23.6 million invested as of December 31, 2009, in corporate securities issued by Pennsylvania-based companies. These securities are held in SERS' various externally managed bond portfolios.

In 1998, the SERS Board approved the funding for the Pennsylvania Capital Fund with a \$50 million allocation committed to the program. The program commenced in March 1999 managed by Berwind Financial Group (Berwind) and PNC Equity Management (PNC). Each advisor was awarded commitments of \$25 million to be invested over four years. Both entities matched SERS' investment. The program provides debt financing to support the expansion and growth of Pennsylvania small business. The Fund seeks to lend to established, profitable companies in good financial condition with annual revenues ranging from \$10 – \$100 million. The majority of the Fund's investments had a maturity of between five and ten years. Loan amounts usually ranged from \$2 million to \$15 million. As of December 31, 2009 SERS portion of Berwind investments totaled \$4.7 million while the PNC investments had matured and all capital was returned to SERS. Most of Berwind's investments have also matured and capital distributed back to SERS. An example of SERS' investments through the Pennsylvania Capital Fund as of December 31, 2009 is an investment of \$2.15 million in redeemable preferred stock from Elite Health Solutions, Inc of Mechanicsburg. Elite Health Solutions provides portable x-ray and related mobile diagnostics services primarily at nursing homes and correctional facilities.

## **Cash**

SERS is one of the largest investors in the Pennsylvania State Treasury Department's Short-Term Investment Pool.

## **Real Estate**

In 1987 SERS began investing directly in the Pennsylvania commercial real estate market and subsequently established two separate account real estate portfolios managed by Heitman Capital Management and Grosvenor Investment Management, formerly Legg Mason Real Estate Services, with a Pennsylvania focus. The Heitman separate account originally had a requirement to invest on a best efforts basis 50% of its initial allocation within the Commonwealth while the Grosvenor account is focused primarily on investing within the state.

As of September 30, 2009, the SERS real estate portfolio contained 66 Pennsylvania properties totaling 9.6 million square feet of office, retail, and warehouse space, and 10,312 apartment, hotel and senior housing units. The gross market value of the Pennsylvania real estate portfolio investments totaled \$1,578 million, of which SERS' ownership share was \$286.3 million.

## **Alternative Investments**

SERS' venture capital program dates back to 1985. Initially the program targeted a 1% allocation to venture capital with a focus to invest with managers located in Pennsylvania or with managers whom had a Pennsylvania investment mandate. Over its 24 year life the program has grown to include national and international based private equity and venture capital managers and the target allocation to alternative investments is 12%. Although the program has become more global, the number of managers investing in companies that impact Pennsylvania via income tax revenue and/or corporate tax revenue continues to comprise a meaningful portion of the program. As of June 30, 2009, 53 of SERS' active managers held investments impacting the state. SERS' market values of Pennsylvania-based and non-PA based companies impacting the Commonwealth are \$132 million and \$481 million, respectively. This equates to 12.3% of the alternative investment program market value.

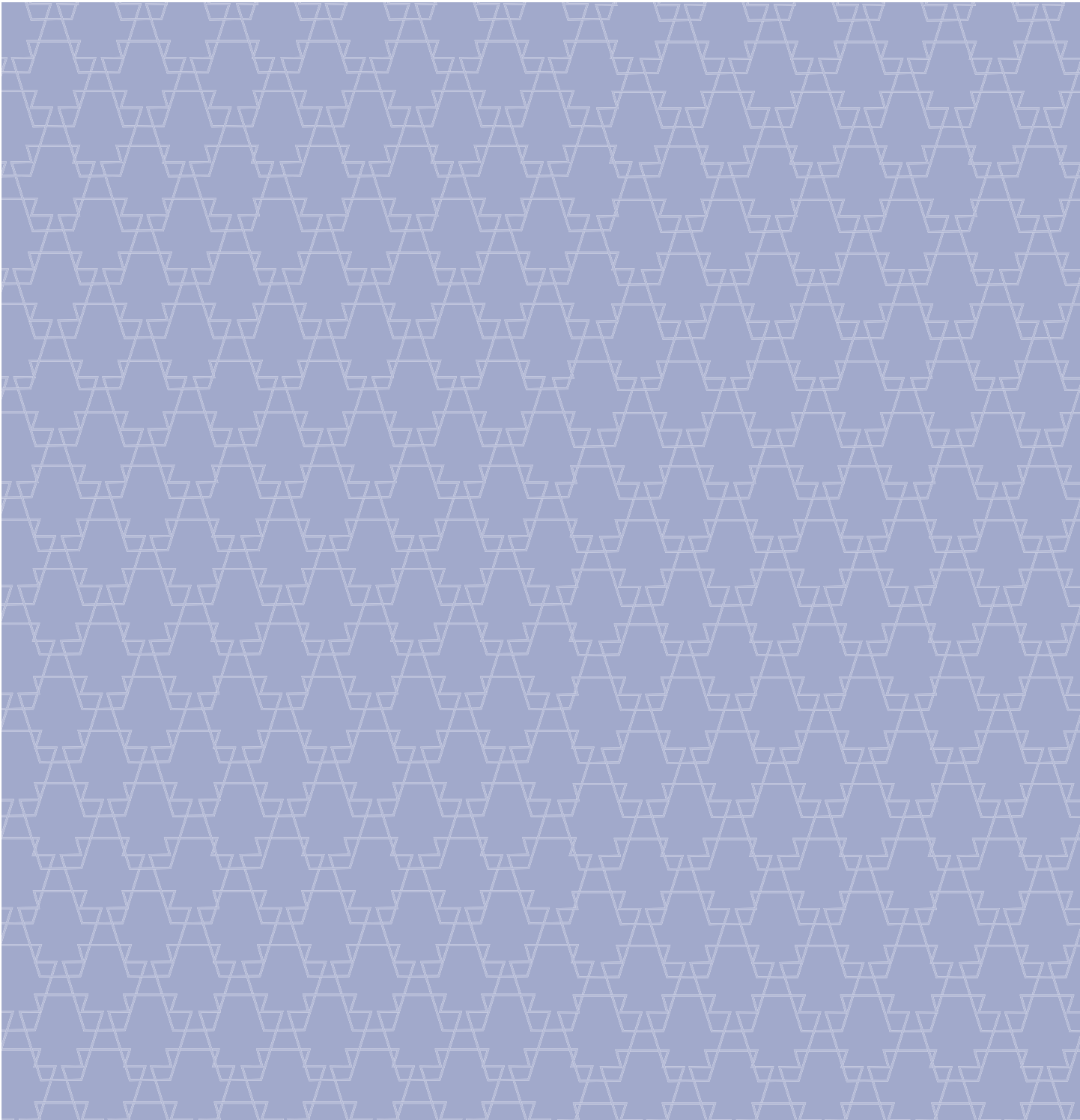
# Pennsylvania Investments Summary *(continued)*

As of June 30, 2009, SERS' venture capital and private equity partnerships invested in 81 Pennsylvania companies employing approximately 28,500 employees, and representing a payroll of \$1.2 billion. In addition, partnerships in which SERS participates invested in 200 companies domiciled outside Pennsylvania but employing approximately 31,200 Pennsylvania citizens with payrolls of \$1.2 billion. These employment rates are expected to generate millions in state income tax revenue.

The number of employees and payroll reported from period to period is often volatile. This is due to several reasons, one of which is the nature of the investments. Venture capital investments often begin with a handful of employees and grow the staff as the companies progress, while investments in companies facing some type of impediment often involve cost cutting measures. These reported numbers change dramatically as companies are added or deleted from the portfolio. Other reasons for the changes in the numbers include inconsistent reporting or lack of reporting by the portfolio companies to the general partners. Additionally, the report does not differentiate between permanent full time positions created and seasonal or part-time positions. Therefore, there may be a significant increase in the number of Pennsylvanians employed with a minimal increase in the total payroll if a company such as Blockbuster, which primarily employs minimum wage, part-time employees, is held in the portfolio. This highlights a few of the causes for the volatile nature of the numbers, but is by no means all inclusive.

Based on data through 2006, Global Insight has compiled rankings of venture capital investing in the United States. For venture-backed companies headquartered in the state, Pennsylvania ranks third in the number of jobs generated and fifth in terms of dollar revenues for 2006. For the period from 1970 through 2006, Pennsylvania stands at number eight in cumulative venture capital investment.

Although the Board's fiduciary duty is to SERS' members and beneficiaries, investments in Pennsylvania provide an ancillary and subordinate benefit to the state's economy as indicated above. The investment policy acknowledges that such benefit, derived from investments in Pennsylvania-based companies, or firms employing Pennsylvanians, should be considered after other primary fiduciary investment characteristics are satisfied.



# Women/Minority Investment Advisor and Broker Report

as of December 31, 2009 - (unaudited)

## Investment Advisors

The following five women or minority-owned firms were under contract with SERS to provide investment advisory services as of December 31, 2009.

### Women/Minority-Owned Investment Advisors

Firm	Status	SERS Assets Under Management
Fairview Capital I & II	Minority Woman-Owned	\$20.0 million commitment \$19.9 million funded
Hawkeye Partners	Woman-Owned	\$75.0 million committed \$14.4 million funded
Pacific Alternative Asset Management Co.	Woman-Owned	\$1,537.2 million fair value
Rock Creek	Minority Woman-Owned	\$422.4 million fair value
Taplin, Canida & Habacht, Inc.	Minority Woman-Owned	\$123.2 million fair value

## Brokers and Brokerage Commissions

SERS's external investment advisors utilized the following minority-owned brokerage firms during calendar year 2009.

Minority commissions totaled \$273,127 for the year. Of this amount, international stock managers had \$58,228 of commissions credited to minority brokers. The SERS Board has a policy of targeting 5%-10% of U.S. stock commissions to be done with minority brokers. It is estimated that this year SERS U.S. stock managers directed approximately 10% of their trades through minority brokers. In addition, although not included in the Board mandate, other SERS advisors are encouraged to trade through minority brokers. Last year fixed income managers traded \$69.0 million of securities through minority brokers.

### Minority-Owned Brokerage Commissions

Firm	Commissions
Andes	\$190
Cabrera Capital Markets	2,774
C L King	32,212
East West	40,597
Guzman & Company	934
Institutional Capital	1,503
Jackson Partners	5,677
Kaufman	1,604
Magna Capital	20,033
Mischler Financial Group	17,292
Mogavero Lee & Co	818
Montrose Securities	7,630
Melvin	8,033
M.R. Beal	1,317
Roberts & Ryan Inv	9,318
Pacific American	16,517
Screaming Eagle Trading	887
Selsia Securities	5,594
Sturdivant & Co.	92,171
Williams Capital Group	8,026
<b>Total Minority Commissions</b>	<b>\$273,127</b>



# Deferred Compensation Program 12





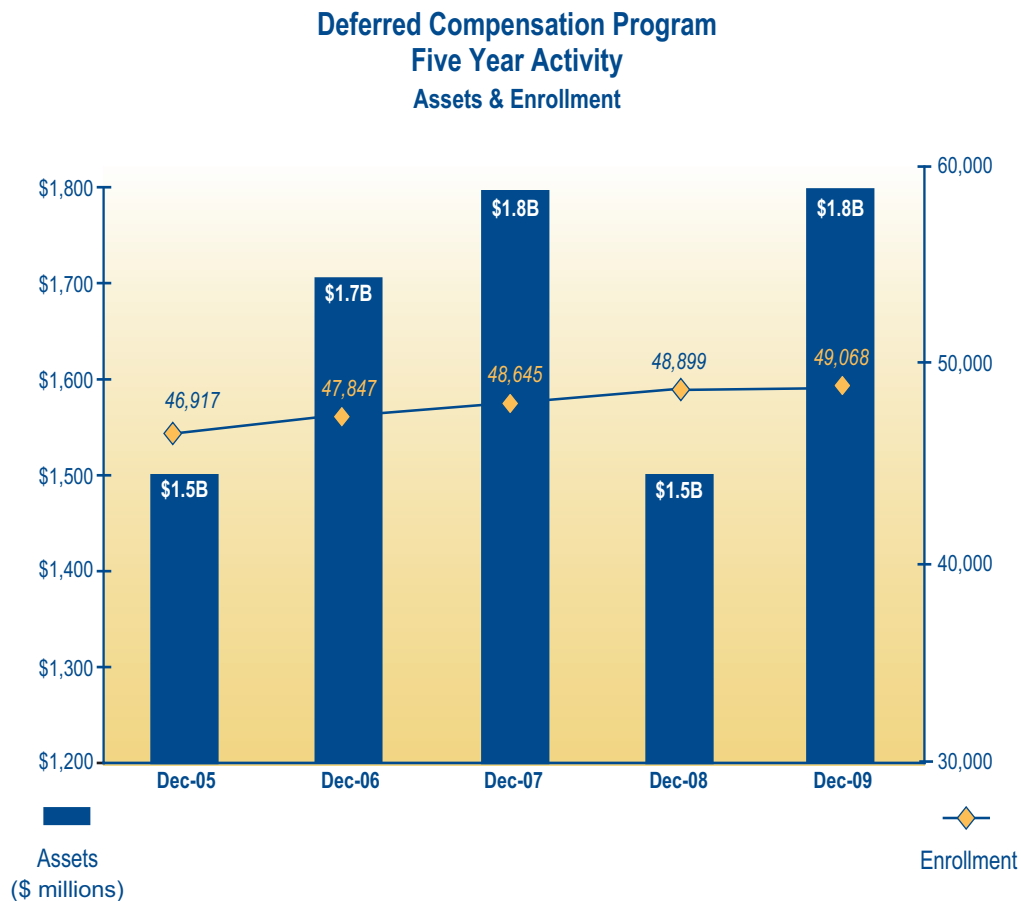
# Deferred Compensation Program

## Program History

Act 1987-81 assigned to the Board the responsibility to establish and monitor a Deferred Compensation Program (Program) for Commonwealth officers and employees, through which participants may voluntarily build retirement savings by deferring a portion of salary to selected investment options. The Program is established as a trust, and is administered in accordance with Internal Revenue Code Section 457(b). Through the Request for Proposal process, the Board selected Great-West Retirement Services as Third Party Administrator (TPA) of the Program. The duties of the TPA are to maintain individual participant records, market the Program to participants, and counsel the members about the Program's benefits. The core investment options are selected by the Board, and are independent of the TPA's functions.

## Growth of the Program

Over the past five years, the Program's assets have increased in value from \$1.5 billion to approximately \$1.8 billion. The sharp drop in assets from \$1.8 billion in 2007 to \$1.5 billion in 2008 can be attributed to the downturn in the financial markets as participation in the program remained steady. As of December 31, 2009, Program participants totaled more than 49,000. Of that total, nearly 33,000 were actively contributing to the Program through regular payroll deductions. The amount of annual participant deferrals varied from \$134 million in 2005 to \$121 million in 2009. Deferrals peaked in 2007 at \$160 million. This was attributed to the large number of participant retirements in June 2007 that utilized the Program's special catch-up feature. Benefit payments to participants increased over that same time span, from \$39 million in 2005, to \$40 million in 2009. The chart below depicts the Program's asset and participation levels over the past five years.





# Deferred Compensation Program *(continued)*

## Program Highlights

The Program provides participant assistance via individual and/or group counseling sessions with the eligible employee, at the employees' work site. The TPA has established a local walk-in office in the Harrisburg downtown area. A toll free telephone service with counselors is also available to offer personal assistance. A telephone Voice Response Unit can be accessed at anytime to allow the participant to check on their account balance, transfer funds among different investment options or inquire about other Program features. The participants may also access the Program's Web site to view their most recent investment position, to make future allocation changes, to transfer among investment options and to update beneficiary information. Educational videos on financial, investment, and retirement planning are also available to help participants in their investment and retirement decisions. In January 2009, the Program began to offer managed accounts to its participants. Managed accounts are personalized investment portfolios put together from among the plan's investment options for participants who want a professional to do the investing for them.

