

2008 Supplemental Budget Information

Prepared for the House Appropriations Committee





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Chairman

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February 15, 2008

Members of the Senate 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 we believe may be helpful to you in your budget deliberations.

We are pleased to report, as detailed at Tab 8, that SERS recorded another year of outstanding investment performance in 2007. With a net return of 17.2%, the System earned more than \$5.2 billion on its investments. To put that in perspective, the median return for large public pension funds was barely half as strong, just 8.7%. SERS' 17.2% return is double our 8.5% actuarially assumed rate of return.

This marks the fifth consecutive year of stellar returns and places SERS' performance among the top 5% of all large public pension plans nationwide – both for 2007 and long-term: SERS' investments have produced a net compounded annualized return of 10.1% per year over the last 10 years, and 17.5% over the last five.

I also would direct your attention to Tab 7, Funding Process and Actuarial Status. Here we report on the plan's current status, which at 92.7% funded as of December 31, 2006, is far superior to the 84% aggregate funding level of major state pension plans nationwide.

Tab 7 also addresses future employer funding obligations, including the projected 2012 rate "spike." As you will see, the spike - once projected as high as 28.6% of payroll - has declined into single digits, thanks largely to the fund's sustained strong investment performance. Also contributing to the improved outlook has been the Legislature's decision (through the adoption of Act 2007-8) to establish a SERS employer contribution rate floor of 4%.

SERS' most recent actuarial valuation, based on investment performance through 2006, projects a 2012 rate of 9.09%. When the next valuation, taking into account the 2007 performance, is completed this spring, we expect the projected rate to be significantly lower than 9.09%. It is important to bear in mind, however, that these projections assume the fund will earn at least 8.5% per year each year between now and 2012. The struggling financial markets at the outset of 2008 should remind us that it may not be possible to meet, let alone outperform, our investment goal every year. Should earnings fall short of assumptions, projected rates would rise. Thus while the 2012 outlook has improved greatly over the last several years, challenges remain. SERS stands ready to continue working with the Legislature and the Administration to manage and meet those challenges.

Additional tabs offer information on, among other topics, member services and demographics, 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' 2008-09 budget request.

Sincerely,

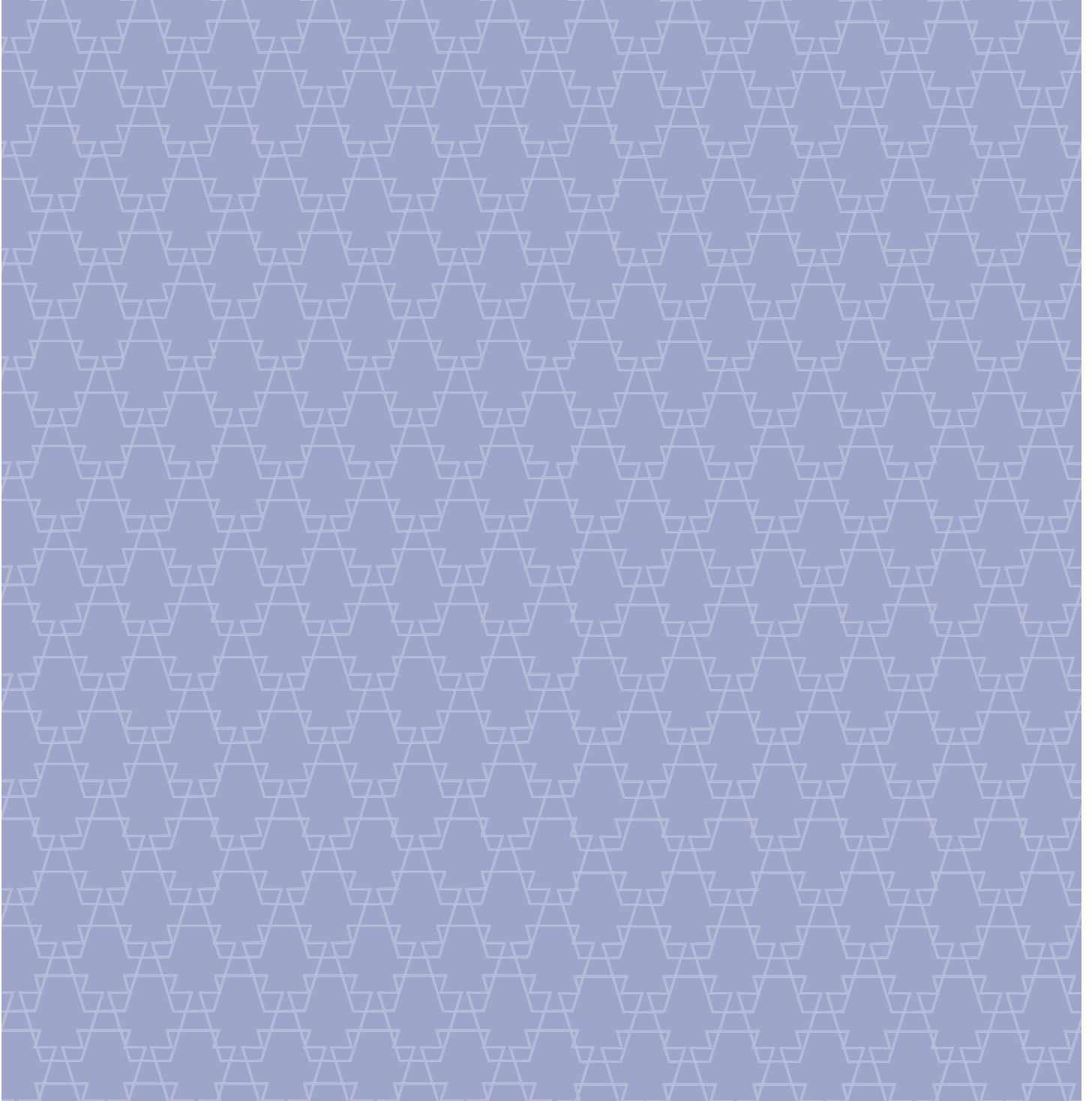
Nicholas J. Maiale
Chairman

Attachment

Table of Contents

Organizational Overview	Tab 1
2008-2009 Budget - Board Submission	Tab 2
Investment Advisory and Consultant Fees	Tab 3
Directed Commissions	Tab 4
Member Services and Demographics	Tab 5
Legislation	Tab 6
Funding Process and Actuarial Status	Tab 7
Investment Policy, Objectives and Performance	Tab 8
Investment Program Summary	Tab 9
Pennsylvania Investments Summary	Tab 10
Women/Minority Advisors and Brokers	Tab 11
Deferred Compensation Program	Tab 12

Organizational Overview 1



Mission, Vision & Guiding Principles

Established in 1923, the Pennsylvania State Employees' Retirement System is one of the nation's oldest and largest statewide retirement plans for public employees, with more than 216,000 members. SERS is among the largest of public and corporate pension funds, with assets of approximately \$35.5 billion as of December 31, 2007.

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 2010, SERS will be prepared for personnel and leadership transitions while continuing to meet operational, financial and public policy challenges of fulfilling our mission.

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 SERS 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' \$35.5 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 SERS 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 SERS Board and the agency, including handling administrative hearings involving SERS members, reviewing investment and non-investment-related contracts, and providing legal advice.

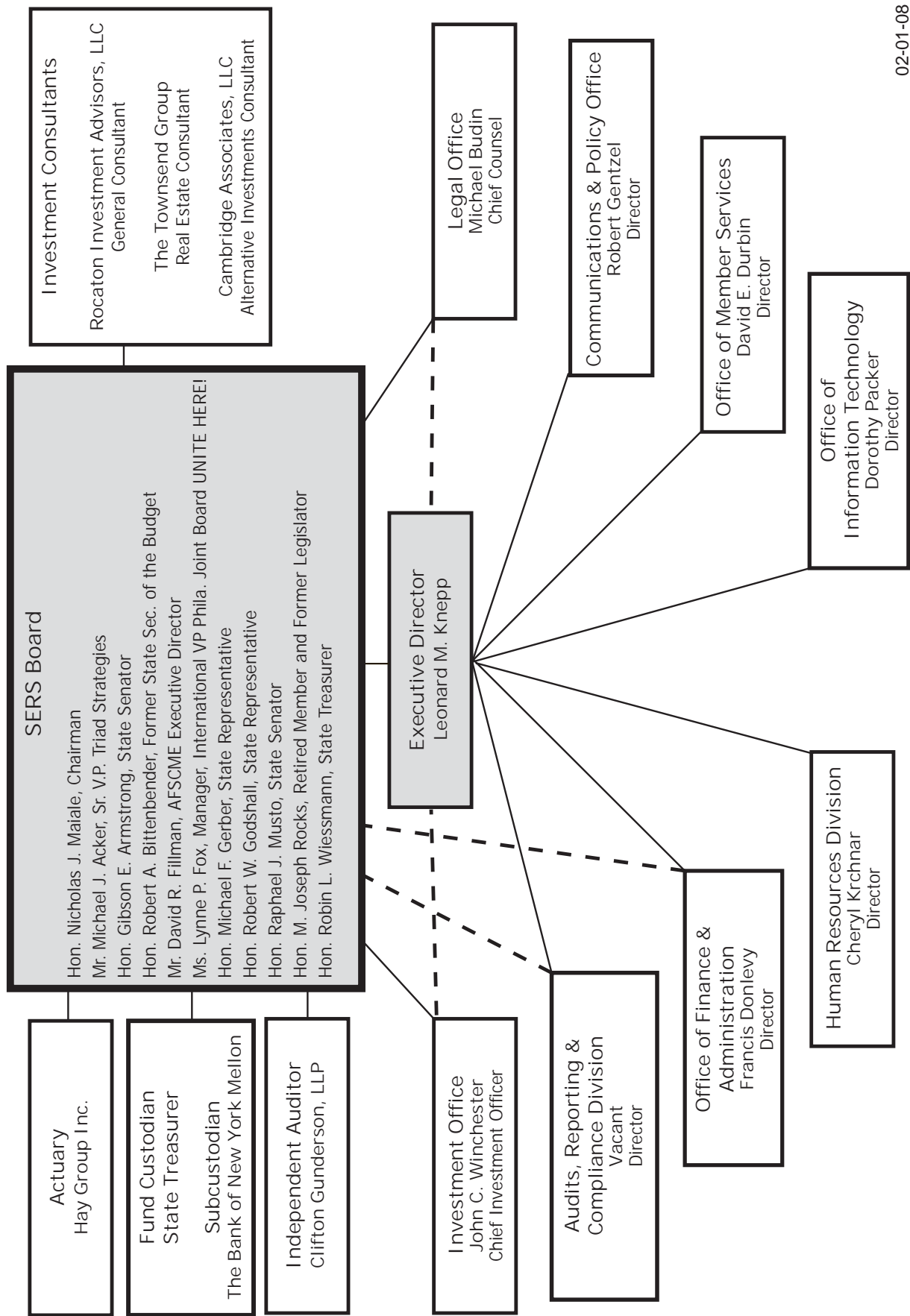
Audits, Reporting and Compliance Division: Provides the Board with the assurance that internal controls are adequate and operating as designed through internal audits of business processes. Coordinates audits performed at SERS by external agencies and auditors. Prepares agency financial and investment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

Human Resources Division: Responsible for management and development of 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



02-01-08



2008-2009 Budget - Board Submission 2

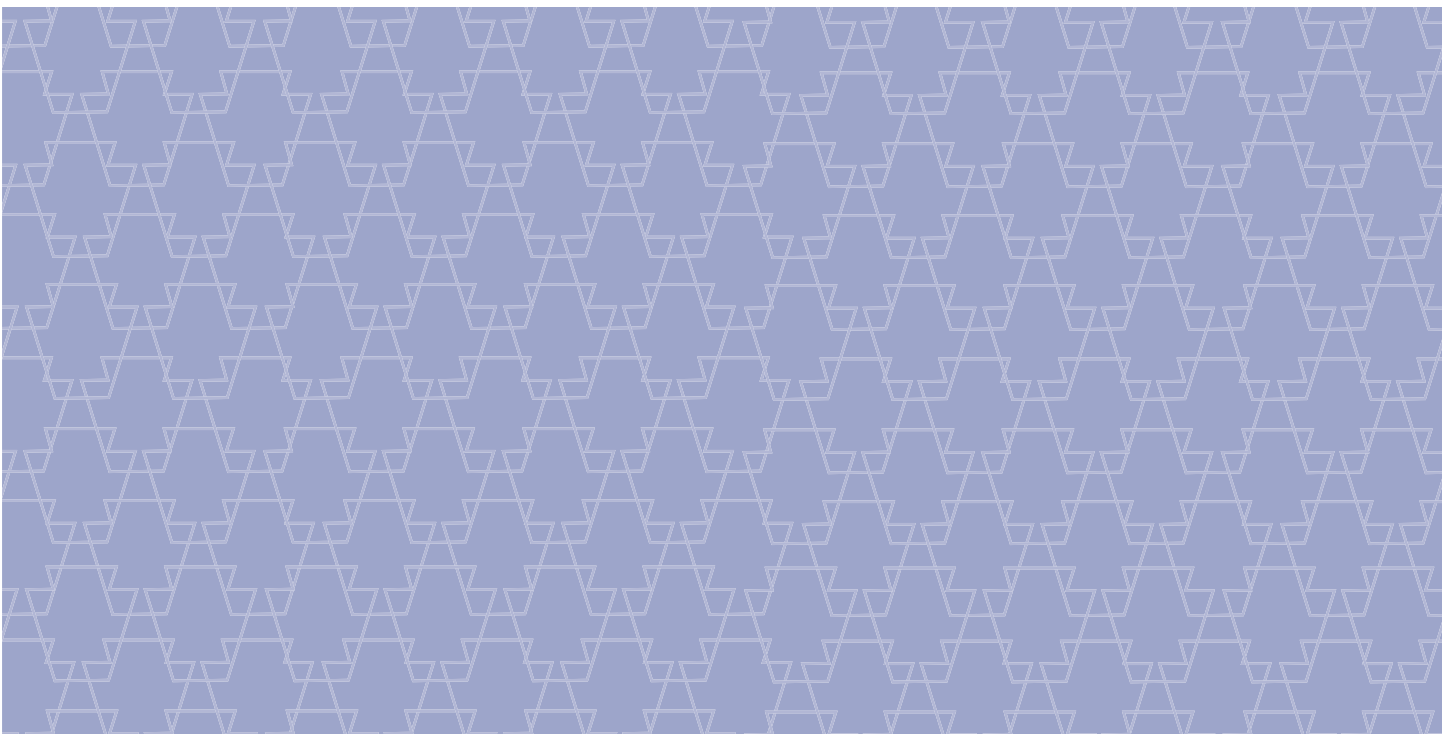


SERS Budget 2008-2009

	Budget 2004-05	Budget 2005-06	Budget 2006-07	Budget 2007-08	Budget 2008-09
Personnel Services	\$13,797,455	\$14,374,963	\$15,600,000	\$16,402,000	\$16,913,000
Operational Expenses:					
Travel	187,860	225,713	230,000	220,000	205,000
Training	119,080	219,985	204,700	189,000	165,000
Telecommunications	269,640	272,530	279,800	312,000	395,000
Telephone/Equipment	1,800	11,700	5,100	165,000	9,000
Consultant	2,513,832	3,718,437	2,795,000	2,953,000	3,863,000
Legal Services/Fees	131,896	95,775	90,000	50,000	52,000
Specialized Services	1,120,935	990,805	1,369,000	827,000	781,000
Advertising	-	-	-	4,000	5,000
Contracted EDP Services-Vendor Provided	1,653,881	554,576	781,000	1,366,000	1,038,000
Contracted Maintenance-Non-EDP	24,065	25,475	17,700	39,000	48,000
Contracted Repairs-Motorized Equipment	855	805	-	-	-
EDP	922,984	1,190,296	1,145,500	959,000	862,000
Real Estate	1,490,784	1,491,553	1,605,500	1,545,000	1,611,000
Vehicles	71,050	82,900	84,700	63,000	54,000
Office Equipment	-	-	23,100	135,000	215,000
Other Rentals/Leases	118,235	103,860	133,000	139,000	142,000
Office Supplies	743,144	420,406	121,000	52,000	48,000
Educational Supplies	2,680	1,900	1,100	1,000	1,000
Other Computer Equipment	-	-	346,000	355,000	609,000
Motorized Equipment	5,860	9,600	6,600	16,000	16,000
Postage	420,365	434,321	235,500	315,000	320,000
Freight	10,600	7,000	5,000	7,000	8,000
Printing	184,720	239,550	169,000	210,000	210,000
Subscriptions	15,285	19,645	20,000	32,000	80,000
Membership Dues	47,750	57,280	60,000	58,000	60,000
Conference Expenses	6,750	20,050	45,000	19,000	8,000
Purchasing Card Purchases	273,494	195,975	208,400	216,000	236,000
Insurance, Surety, & Fidelity Bonds	5,000	5,000	5,300	5,000	8,000
Other Operational Expenses	200,000	326,900	268,000	844,000	861,000
Total Operational	10,542,545	10,722,037	10,255,000	11,096,000	11,910,000
Fixed Assets	150,000	90,000	70,000	70,000	25,000
Total Budget	\$24,490,000	\$25,187,000	\$25,925,000	\$27,568,000	\$28,848,000



Investment Advisory and Consultant Fees 3



Investment Advisory & Consultant Fees

(unaudited)

2007 Advisory Fees

Assets	Fees^{1/} (in \$)	Fees^{2/} (in basis points)
Stocks	\$115,486,427	72.1
Fixed Income	18,813,262	38.6
Absolute Return	22,688,740	70.4
Real Estate	42,370,464	153.9
Alternative Investments	118,081,912	134.5
Inflation Protection	13,349,346	57.4
Total Fund	\$330,790,151	86.7

^{1/} Fees paid and accrued by SERS during the period from January 1, 2007, through December 31, 2007, according to SERS records maintained by the Office of Finance and Administration (OFA).

^{2/} The fee data from OFA was divided by the SERS total fund and asset class average values during calendar year 2007 to arrive at the basis point calculations. Alternative Investments were determined based on committed capital during the active investment 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 2003-2007

Calendar Year	Fees (\$ mil)	Basis Points
2003	\$184.4	65.9
2004	195.1	66.3
2005	231.2	78.4
2006	286.8	83.5
2007	330.8	86.7

2007 Consultant Fees

Firm	Status	Fees
Cambridge Associates	Alternative Investments	\$1,133,333
Rocaton Investment Advisors	General	466,667
The Hay Group, Inc.	General	262,563
The Townsend Group	Real Estate	229,400
EFL Associates of Colorado	General	130,455
Institutional Shareholders Services	General	102,500

Fees to Managers (Non-Budget Appropriation)

(unaudited)

SERS employs outside investment managers. Active management by private-sector investment professionals has generated returns, after fees, that exceed passive benchmarks. In 2007, SERS earned 17.2 percent, or more than \$5.2 billion, on its investment portfolio, performance that placed it among the top 5 percent of all large public pension funds nationwide. The following agreements related to the management of the SERS investment portfolio are paid through a non-budget appropriation. They are treated as a reduction of the investment revenue of the fund rather than as a direct administrative expense.

2007 Fees to Managers

U.S. Stocks

AQR Capital Management	Greenwich	CT	\$6,385,491
AXA Rosenberg Investment Management, LLC	Orinda	CA	1,134,098
Barclays Global Investors, N.A. - Alpha Tilt	San Francisco	CA	1,677,126
Blackstone Alternative Asset Management	New York	NY	19,776,732
Bridgewater Associates PA#1	Westport	CT	4,660,417
Bridgewater Associates PA#2	Westport	CT	6,038,968
Emerald Advisers, Inc.	Lancaster	PA	1,388,223
Iridian Asset Management, LLC	Westport	CT	1,145,611
Mellon Equity Associates, LLP (PA Fund)	Pittsburgh	PA	319,851
NISA Beta-Overlay	St. Louis	MO	1,486,774
Northpointe Capital	Palatine	IL	312,251
Pacific Alternative Asset Management	Irvine	CA	15,750,361
Robeco - Sage	New York	NY	125,214
Turner Investment Partners	Berwyn	PA	248,463

Absolute Return

Mesirow Advanced Strategies	Chicago	IL	14,469,504
Morgan Stanley Alternative Investments Partners, L.P.	West Conshohocken	PA	8,219,236

Inflation Protection

NISA Investment Advisors, LLC	St. Louis	MO	1,222,330
Wellington	Boston	MA	6,912,416
Blackstone Alternative Asset Management	New York	NY	5,214,600

Non-U.S. Stocks

Arden Asset Management	New York	NY	5,788,843
Artisan Partners Limited Partnership	Milwaukee	WI	3,758,257
Bernstein Emerging Markets	New York	NY	1,851,425
Blackrock Investment Management, Ltd.	New York	NY	3,514,996
Harris Associates, L.P.	Chicago	IL	3,385,655
Morgan Stanley, Dean Witter Investment Mgt., Inc.	London	UK	3,579,781
Oaktree Cap. Mgt, LLC - Emerging Mkt. Feeder Fund (2004)	Los Angeles	CA	4,765,085
Pictet International Management, Ltd. (Emerging Markets)	London	UK	1,086,586
Pictet International Management, Ltd. (Small Cap)	London	UK	1,483,455
Rexiter Emerging Markets	Boston	MA	1,521,209
Rock Creek Group	Washington	DC	6,317,410

Fees to Managers

(Non-U.S. Stocks, continued)

Templeton Investment Counsel, LLC	Fort Lauderdale	FL	\$2,600,099
Templeton Strategic Emerging Market Fund II	Fort Lauderdale	FL	991,809
Templeton TIFI - Emerging Markets Series	Fort Lauderdale	FL	4,498,523

Currency Overlay

Pareto Partners	New York	NY	309,018
Record Treasury Management, Ltd.	Berkshire	UK	233,761

Global Stocks

Marathon	London	UK	6,558,124
Walter Scott & Partners	Edinburgh	Scotland	2,792,811

Fixed Income

Ashmore Emerging Market	London	UK	1,433,723
Ashmore Local Currency	London	UK	1,534,360
Berwind Financial Group, Inc.	Philadelphia	PA	127,872
Fidelity Management & Research Co.	Boston	MA	1,959,523
Goldman Sachs Asset Management	New York	NY	163,600
Gramercy Advisors, LLC	Greenwich	CT	1,257,219
Greylock Capital Management, LLC	New York	NY	1,737,450
Legg Mason Real Estate Advisors	Philadelphia	PA	3,182
MDL Capital Management	Pittsburgh	PA	52,894
Morgan Stanley Dean Witter	West Conshohocken	PA	1,476,444
NISA Custom Interest Fixed Income	St. Louis	MO	382,573
Oaktree Capital Management, LLC - Mezzanine Fund	Los Angeles	CA	347,318
Pacific Investment Management Co. (PIMCO)	Newport Beach	CA	1,047,576
Standish Mellon (Mellon Bond Associates)	Philadelphia	PA	129,235
Stone Harbor Emerging Market Debt	New York	NY	1,718,955
Stone Harbor - High Yield	New York	NY	2,785,928
Taplin, Canida & Habacht	Miami	FL	280,484
W. R. Huff Asset Management	Morristown	NJ	2,374,926

Real Estate

AG Asia Realty Fund	New York	NY	472,900
Apollo Real Estate Investment Fund III	New York	NY	158,455
Berwind Property Group Fund IV	Philadelphia	PA	23,122
Berwind Property Group Fund V	Philadelphia	PA	129,125
Berwind Property Group Fund VI	Philadelphia	PA	162,906
Berwind Property Group Fund VII	Philadelphia	PA	293,960
Berwind Property Group Fund VIII	Philadelphia	PA	173,631
Blackstone Real Estate Partners III	New York	NY	55,100
Blackstone Real Estate Partners IV TE. 2, L.P.	New York	NY	319,422
Blackstone VI	New York	NY	1,437,550
Cliffwood Partners, LLC	Los Angeles	CA	3,754
CRA Real Estate Securities	Radnor	PA	1,722,054
Colony Investors VIII	Los Angeles	CA	312,967

Fees to Managers

(Real Estate, continued)

Fidelity RE	Boston	MA	\$108,400
Fillmore Capital Partners	San Francisco	CA	615,340
Forest Investment Associates	Atlanta	GA	4,753,297
Goldman Sachs & Co. (Whitehall V and VI)	New York	NY	12,787
Goldman Sachs & Co. (Whitehall VII and VIII)	New York	NY	28,893
Goldman Sachs & Co. (Whitehall V-S and VI-S)	New York	NY	4,246
Grosvenor Residential Investment Partners I	Philadelphia	PA	99,100
Heitman Capital Management, Inc.	Chicago	IL	1,560,826
Heitman American Real Estate Trust, LP	Chicago	IL	188,400
LaSalle Advisors Limited	Baltimore	MD	5,129,362
Legg Mason Real Estate Advisors, Inc. (Grosvenor)	Radnor	PA	2,208,500
Lowe Enterprises Investment Management, Inc.	Los Angeles	CA	9,358,300
Lubert Adler Management II	Philadelphia	PA	25,454
Lubert Adler Management V	Philadelphia	PA	861,250
Oaktree Capital Management - Opportunity Fund II	New York	NY	23,172
Oaktree Capital Management - Opportunity Fund III	Los Angeles	CA	266,425
Oxford Real Estate Advisors, Inc.	Pittsburgh	PA	450,000
Prudential Latin America Retail Fund	Parsippany	NJ	250,000
Prudential Senior Housing Partners I	Atlanta	GA	1,602,677
Prudential Senior Housing Partners II	Atlanta	GA	72,829
Prudential Senior Housing Partners III	Atlanta	GA	437,500
Rockpoint Real Estate Fund I	Dallas	TX	349,064
Rockpoint Real Estate Fund II	Dallas	TX	479,102
Rockpoint Real Estate Fund III	Dallas	TX	341,096
Rockpoint Finance Fund I	Dallas	TX	834,589
Scout Fund I	Dallas	TX	998,000
Sentinel Corporation	New York	NY	755,180
Starwood Opportunity - Fund IV	Greenwich	CT	38,822
Starwood Opportunity - Fund V	Greenwich	CT	169,144
Starwood Opportunity - Fund VI	Greenwich	CT	710,115
Starwood Opportunity - Fund VII	Greenwich	CT	442,296
Trust Company of the West - Fund VI	Los Angeles	CA	71,429
UBS Realty Investors	Hartford	CT	630,139
UBS Brinson - RESA	Hartford	CT	991,047
Urdang Investment Management	Plymouth Meeting	PA	354,771
Westbrook Real Estate, L.P. - Fund II	New York	NY	37,868
Westbrook Real Estate, L.P. - Fund III	New York	NY	26,916
Westbrook Real Estate, L.P. - Fund IV	New York	NY	139,019
Westbrook Real Estate, L.P. - Fund V	New York	NY	210,879
Westbrook Real Estate, L.P. - Fund VI	New York	NY	526,133
Westbrook Real Estate, L.P. - Fund VII	New York	NY	943,151

Venture Capital

Abingworth Bioventures IV, L.P.	Edinburg	Scotland	500,000
Abingworth Bioventures V, L.P.	Edinburg	Scotland	998,100
Adams Capital Management - Fund II	Sewickley	PA	1,320,000

Fees to Managers

(Venture Capital, continued)

Adams Capital Management - Fund III	Sewickley	PA	\$1,155,000
Advanced Technology Ventures- Fund VI	Waltham	MA	182,248
Advanced Technology Ventures- Fund VII	Waltham	MA	593,991
Alloy Ventures 2000	Palo Alto	CA	367,919
Alloy Ventures 2002	Palo Alto	CA	606,459
Alloy Ventures 2005	Palo Alto	CA	1,075,759
APA Excelsior - Fund VI	King of Prussia	PA	152,448
Apex - Fund V	Chicago	IL	342,001
Artiman Ventures II	Palo Alto	CA	340,000
Atlas Venture - Fund IV	Boston	MA	129,466
Atlas Ventures - Fund V	Boston	MA	536,440
Atlas Ventures - Fund VI	Boston	MA	409,844
Austin Ventures - Fund VIII	Austin	TX	235,569
Austin Ventures IX	Austin	TX	236,741
Battery Ventures VIII	Waltham	MA	191,600
Birchmere Ventures Fund III	Pittsburgh	PA	249,372
Care Capital III	Princeton	NJ	143,587
Charles River - Fund XI	Waltham	MA	225,246
CID Greater China	Taipei	Taiwan	526,141
Clearstone Venture Partners III-A	Santa Monica	CA	55,893
Cross Atlantic Technology Fund	Radnor	PA	122,760
Cross Atlantic Technology - Fund II	Radnor	PA	468,742
Devon Park Bioventures	Wayne	PA	316,900
Draper Fisher Jurvetson - Fund VI	Redwood City	CA	175,000
Draper Fisher Jurvetson - Fund VII	Redwood City	CA	500,000
Draper Triangle Capital Fund	Pittsburgh	PA	350,000
Draper Triangle Capital Fund II	Pittsburgh	PA	240,000
Fairview Capital - Fund II	Farmingham	CT	31,766
Frazier Healthcare - Fund III	Seattle	WA	412,580
Frazier Healthcare - Fund IV	Seattle	WA	540,000
Frazier Healthcare - Fund V	Seattle	WA	529,893
Grotech Partners - Fund V	Timonium	MD	447,200
Halpern Denny & Co - Fund II	Boston	MA	239,200
Halpern Denny & Co - Fund III	Boston	MA	409,100
Harbourvest Partners, LLC - Fund VI	Boston	MA	2,000,000
Harbourvest Partners, LLC - Fund VII	Boston	MA	750,000
Harbourvest VIII	Boston	MA	560,148
Healthcare Ventures - Fund V	Princeton	NJ	296,254
Healthcare Ventures - Fund VI	Princeton	NJ	547,994
Healthcare Ventures - Fund VII	Princeton	NJ	696,693
Healthcare Ventures - Fund VIII	Princeton	NJ	478,826
Highland Capital Partners - Fund VI	Boston	MA	624,965
Highland Capital Partners VII	Boston	MA	1,006,319
Highland Consumer Fund I	Boston	MA	669,599
I.P. - Fund II	Bellevue	WA	90,000
I.P. - Fund III	Bellevue	WA	78,000

Fees to Managers

(Venture Capital, continued)

I.P. - Fund IV	Bellevue	WA	\$66,500
Interwest Partners - Fund VIII	Menlo Park	CA	409,936
Interwest Partners - Fund IX	Menlo Park	CA	500,000
J. H. Whitney & Co. Equity Partners - Fund III	Stamford	CT	200,000
JMI Equity Fund V	Wilmington	DE	312,423
JMI Equity Fund VI	Baltimore	MD	333,367
J.P. Morgan Investment Management - Fund I	New York	NY	921,332
J.P. Morgan Investment Management - Fund II	New York	NY	1,034,943
J.P. Morgan Investments III	New York	NY	1,034,942
Keystone Ventures - Fund IV	Philadelphia	PA	5,150
Kline Hawkes Pacific	Los Angeles	CA	116,445
Knightbridge Venture Capital - Fund VI	Bartlesville	OK	140,000
Lightspeed Venture Partners VII	Menlo Park	CA	616,208
Meritech Capital Partners III	Palo Alto	CA	791,950
Meritech Cap Partners - Fund II	Menlo Park	CA	85,505
Mid-Atlantic Venture - Fund III	Bethlehem	PA	202,776
Mid-Atlantic Venture - Fund IV	Bethlehem	PA	750,048
Morgenthaler VII	Cleveland	OH	808,714
Morgenthaler VIII	Cleveland	OH	570,707
New Enterprise Associates - Fund VI	Baltimore	MD	6,970
New Enterprise Associates - Fund VII	Baltimore	MD	169,135
New Enterprise Associates - Fund IX	Baltimore	MD	161,648
New Enterprise Associates - Fund X	Baltimore	MD	174,095
New Enterprise Associates - Fund XI	Baltimore	MD	94,462
New Enterprise Associates - Fund XII	Baltimore	MD	348,084
Newspring Ventures II	Radnor	PA	187,500
Nova Vita	Radnor	PA	9,736
Oak Investment Partners XI	Westport	CT	630,000
Oak Investment Partners XII	Westport	CT	599,999
PA Early Stage Fund III	Wayne	PA	200,000
Patricof & Co. Ventures Inc.- P/A Fund III	King of Prussia	PA	824,850
Pitango Venture Capital Fund IV	Herzliya	Israel	448,166
Pitango Venture Capital Fund V	Herzliya	Israel	283,432
Polaris Venture Partners - Fund II	Seattle	WA	897,656
Polaris Venture Partners - Fund III	Seattle	WA	1,011,512
Polaris Venture Partners - Fund IV	Seattle	WA	1,250,800
Polaris Venture Partners - Fund V	Seattle	WA	1,183,024
Quaker BioVentures, L.P.	Philadelphia	PA	503,278
Quaker BioVentures II, L.P.	Philadelphia	PA	468,900
SofinnovaVenture Partners VII	San Francisco	CA	583,300
Sprout Group - Fund VII	New York	NY	11,142
Summit Accelerator	Boston	MA	159,189
Summit Partners Venture Capital Fund II	Boston	MA	141,178
Summit Partners - Fund V	Boston	MA	434,784
T. Rowe Price	Baltimore	MD	504,535
TA Associates - Advent VIII	Boston	MA	193,097

Fees to Managers

(Venture Capital, continued)

Technology Leaders - TL Ventures III	Wayne	PA	\$7,440
Technology Leaders - TL Ventures IV	Wayne	PA	204,320
Technology Leaders - TL Ventures V	Wayne	PA	315,535
Three Arch Partners	Wayne	PA	404,627
Three Arch Partners IV	Wayne	PA	501,740
U.S. Venture Fund VII	Menlo Park	CA	225,125
U.S. Venture Fund VIII	Menlo Park	CA	416,136
Weathergage Venture Capital	San Francisco	CA	219,400
Weston Presidio Capital - Fund III	San Francisco	CA	174,850
Weston Presidio Capital - Fund IV	San Francisco	CA	583,325
Weston Presidio Capital - Fund V	San Francisco	CA	966,682
Worldview Technology Partners	Palo Alto	CA	453,188

Private Equity

ABRY Mezzanine Partners, Inc.	Boston	MA	181,449
ABRY Broadcast Partners III	Boston	MA	152,752
ABRY Broadcast Partners IV	Boston	MA	160,422
ABRY Broadcast Partners V	Boston	MA	861,605
ABRY Senior Equity II	Boston	MA	363,816
ABS Capital Partners III, L.P.	Baltimore	MD	20,409
ABS Capital Partners IV, L.P.	Baltimore	MD	1,130,648
ABS Capital Partners V, L.P.	Baltimore	MD	586,488
Accel Europe	Princeton	NY	406,450
Advent Latin American Fund	Boston	MA	303,333
AG Capital Recovery Partners III, L.P.	New York	NY	141
AG Capital Recovery Partners IV, L.P.	New York	NY	27,819
AG Capital Recovery Partners V, L.P.	New York	NY	255,502
Alpha Private Equity Fund 4	Paris	FR	658,434
Alpha Private Equity Fund 5	Paris	FR	764,985
APAX Partners & Co. Germany - Fund II	Munich	GR	45,728
APAX Partners & Co. UK Ventures - Fund VI	London	UK	303,169
APAX Partners & Co. UK Europe - Fund IV	London	UK	523,009
APAX Partners & Co. UK Europe - Fund V	Munich	GR	1,963,886
APAX Partners & Co. UK Europe - Fund VI	London	UK	1,380,101
APAX Partners & Co. UK Europe - Fund VII	Guernsey	Channel Islands	998,284
Apollo Management, L.P. - Fund IV	New York	NY	72,467
Apollo Management, L.P. - Fund VI	New York	NY	49,023
Asia Pacific - Fund III	San Francisco	CA	115,715
Asia Alternative Capital Partners	San Francisco	CA	364,939
Audax Group	Boston	MA	312,028
Avenue Special Situation Fund IV	New York	NY	409,708
Avenue Asia Special Situation Fund IV	New York	NY	1,000,000
Avenue Special Situation Fund V	New York	NY	555,692
AXA Secondary Fund III - 1, L.P.	Paris	FR	260,000
AXA Secondary Fund III - 2, L.P.	Paris	FR	140,000
AXA Secondary Fund IV	Jersey	Channel Islands	959,313

Fees to Managers

(Private Equity, continued)

Bain Capital Inc. - Fund VII	Boston	MA	\$307,900
Bain Capital Fund IX - Coinvest	Boston	MA	228,542
Baring Vostock Fund IV	Guernsey	Channel Islands	350,137
BC European Capital - Fund VII	New York	NY	384,914
BC European Capital - Fund VII Top Up	New York	NY	130,930
BC European Capital VIII	New York	NY	1,589,544
Berkshire Fund VI	Boston	MA	262,190
Berkshire Fund VII	Boston	MA	409,400
Blackstone Group - Fund III	New York	NY	98,048
Blackstone Group - Fund V	New York	NY	334,745
Brait IV	Grand Cayman	Cayman Island	475,120
Brynwood Partners V	Greenwich	CT	194,530
Centerbridge Capital Partners	New York	NY	658,340
Cerberus Capital Management, L.P.	New York	NY	122,344
Cerberus Capital Management, L.P. - Series II	New York	NY	86,049
Cerberus Capital Management, L.P. - Series III	New York	NY	162,222
Cerberus Capital Management, L.P. - Series IV	New York	NY	1,287,600
Charterhouse Equity Partners - Fund VII	New York	NY	94,200
Charterhouse Equity Partners - Fund VIII	New York	NY	1,055,961
Chequers Capital XV	Paris	FR	898,448
Clayton, Dubilier & Rice V	New York	NY	119,677
Clayton, Dubilier & Rice - Fund VI	New York	NY	237,020
Code, Hennessy & Simmons L.P. Fund III	Chicago	IL	26,900
Code, Hennessy & Simmons L.P. Fund IV	Chicago	IL	441,582
Code, Hennessy & Simmons L.P. Fund V	Chicago	IL	2,248,666
CVI Global Value Fund	George Town	Cayman Island	907,014
DLJ Merchant Banking - Fund II	New York	NY	183,637
DLJ Merchant Banking - Fund III	New York	NY	145,605
Electra European Fund II	London	UK	896,109
Elevation Partners	Menlo Park	CA	515,278
Energy Spectrum Partners Fund IV	Dallas	TX	693,150
Energy Spectrum Partners Fund V	Dallas	TX	450,000
Eureka II	Yardley	PA	173,931
Excelsior Capital Asia Partners	Hong Kong	China	463,692
First Reserve Fund X	Greenwich	CT	182,264
First Reserve Fund XI	Greenwich	CT	497,426
Francisco Partners	San Francisco	CA	31,516
Francisco Partners II	San Francisco	CA	166,872
Frontenac Company - Fund VII	Chicago	IL	160,000
Golder, Thomas, Cressey & Rauner- Fund V	Chicago	IL	13,630
Golder, Thomas, Cressey & Rauner- Fund VII	Chicago	IL	857,706
Golder, Thomas, Cressey & Rauner- Fund IX	Chicago	IL	395,670
Great Hill Partners	Boston	MA	409,688
Great Hill Partners - Fund II	Boston	MA	687,297
Great Hill Partners - Fund III	Boston	MA	331,840
Gryphon Partners - Fund III	San Francisco	CA	233,390

Fees to Managers

(Private Equity, continued)

HarbourVest International Private Equity Partners - Fund II	Boston	MA	\$157,378
HarbourVest International Private Equity Partners - Fund III	Boston	MA	289,596
HarbourVest International Private Equity Partners - Fund IV	Boston	MA	399,900
HarbourVest International Private Equity Partners - Fund V	Boston	MA	262,775
Hellman & Friedman - Fund III	San Francisco	CA	396
Hellman & Friedman- Fund IV	San Francisco	CA	155,286
Hellman & Friedman- Fund V	San Francisco	CA	146,714
Hellman & Friedman- Fund VI	San Francisco	CA	234,392
Insight Venture Partners VI	New York	NY	201,840
Intermedia Partners VII	New York	NY	533,630
J.H. Whitney V	Stamford	CT	304,068
J.H. Whitney VI	New Canaan	CT	686,407
Invemed Catalyst Fund	New York	NY	89,349
J.P. Morgan US Corporate Fin. Inst. Inv. II	New York	NY	433,492
JW Childs Equity Partners III	Boston	MA	388,037
Kelso & Company - Fund VII	New York	NY	499,062
Kelso & Company - Fund VIII	New York	NY	187,500
Landmark Partners Inc. - Fund IV	New York	NY	107
Landmark Partners Inc. - Fund V	New York	NY	199,551
Leeds Weld Equity Partners IV, L.P.	New York	NY	297,764
Lexington Capital Partners - Fund II	New York	NY	91,791
Lexington Capital Partners - Fund III	New York	NY	99,829
Lexington Capital Partners - Fund V	New York	NY	644,766
Lexington Capital Partners - Fund VI	New York	NY	367,400
Lime Rock Partners III	Westport	CT	281,902
Lime Rock Resources	Westport	CT	377,778
Lime Rock Partners IV	Westport	CT	466,667
LLR Equity Partners	Philadelphia	PA	185,584
LLR Equity Partners II	Philadelphia	PA	496,686
Madison Dearborn Capital Partners - Fund IV	Chicago	IL	116,727
Madison Dearborn Capital Partners - Fund V	Chicago	IL	516,603
MatlinPatterson Global Opportunities Partners, L.P.	New York	NY	164,316
MatlinPatterson Global Opportunities Partners II, L.P.	New York	NY	1,326,162
Media/Communications Partners - Fund IV	Boston	MA	118,884
Media/Communications Partners - Fund V	Boston	MA	512,361
Meridian Venture Partners II	Radnor	PA	298,908
Newbridge Asia III	San Francisco	CA	201,834
Newbridge Asia IV	San Francisco	CA	423,930
New York Life Cap Partners III	New York	NY	500,000
Nordic Capital V, L.P.	Stockholm	Sweden	446,299
Nordic Capital VI, L.P.	Stockholm	Sweden	919,864
Oaktree Capital Management, LLC - Opportunities Fund I	Los Angeles	CA	2,071,428
Oaktree Capital Management, LLC - Opportunities Fund IV	Los Angeles	CA	51,356
Oaktree Capital Management, LLC - Opportunities Fund V	Los Angeles	CA	498,889
Oaktree Capital Management, LLC - Opportunities Fund VI	Los Angeles	CA	499,993
Oaktree Capital Management, LLC - Opportunities Fund VII	Los Angeles	CA	525,000

Fees to Managers

(Private Equity, continued)

Oaktree Capital Management, LLC - Opportunities Fund VII b	Los Angeles	CA	\$503,700
Oaktree Capital Management, LLC - Principal Opp. Fund II	Los Angeles	CA	47,498
Oaktree Capital Management, LLC - Principal Opp. Fund IV	Los Angeles	CA	399,000
OCM/GFI Power Opportunities II	Los Angeles	CA	349,967
Palamon Capital Partners, L.P.	London	UK	317,824
Palamon European Equity Fund II	London	UK	914,050
Parthenon Investments II	Boston	MA	265,191
Permira IV	Boston	MA	1,665,120
Permira European - Fund I	London	UK	132,300
Permira European - Fund II	London	UK	308,778
Permira European - Fund III	London	UK	1,138,685
PNC Equity II	Pittsburgh	PA	435,721
Providence Equity Partners IV	Providence	RI	84,110
Providence Equity Partners VI	Providence	RI	314,412
Sankaty Credit Opportunities III	Boston	MA	495,300
SB Energy Partners 1B	Denver	CO	375,000
SCP Private Equity Partners - Fund II	Wayne	PA	280,826
Shoreview Capital Partners	Minneapolis	MN	389,899
Singular Guff Bric OPP Fund	New York	NY	52,196
Sterling Capital Partners	Northbrook	IL	140,858
Sterling Capital Partners II	Northbrook	IL	436,915
Sterling Capital Partners III	Northbrook	IL	353,315
Summit Partners - Venture VI	Boston	MA	1,431,415
Summit Partners - Venture VII	Boston	MA	919,811
TA IX	Boston	MA	995,170
TA X	Boston	MA	557,420
Thomas Lee Company - Equity IV	New York	NY	105,497
Thomas Lee Company - Equity VI	New York	NY	280,983
TPG Partners L.P. Fund II	Fort Worth	TX	85,072
TPG Partners L.P. Fund V	Fort Worth	TX	1,506,134
UMS Partners I	Philadelphia	PA	100,000
Versa Capital Management	Philadelphia	PA	100,000
Vestar Capital Partners - Fund III	New York	NY	102,939
Vestar Capital Partners - Fund IV	New York	NY	402,384
Vestar Capital Partners - Fund V	New York	NY	51,733
W Capital Partners II	New York	NY	432,900
Total			\$330,790,151



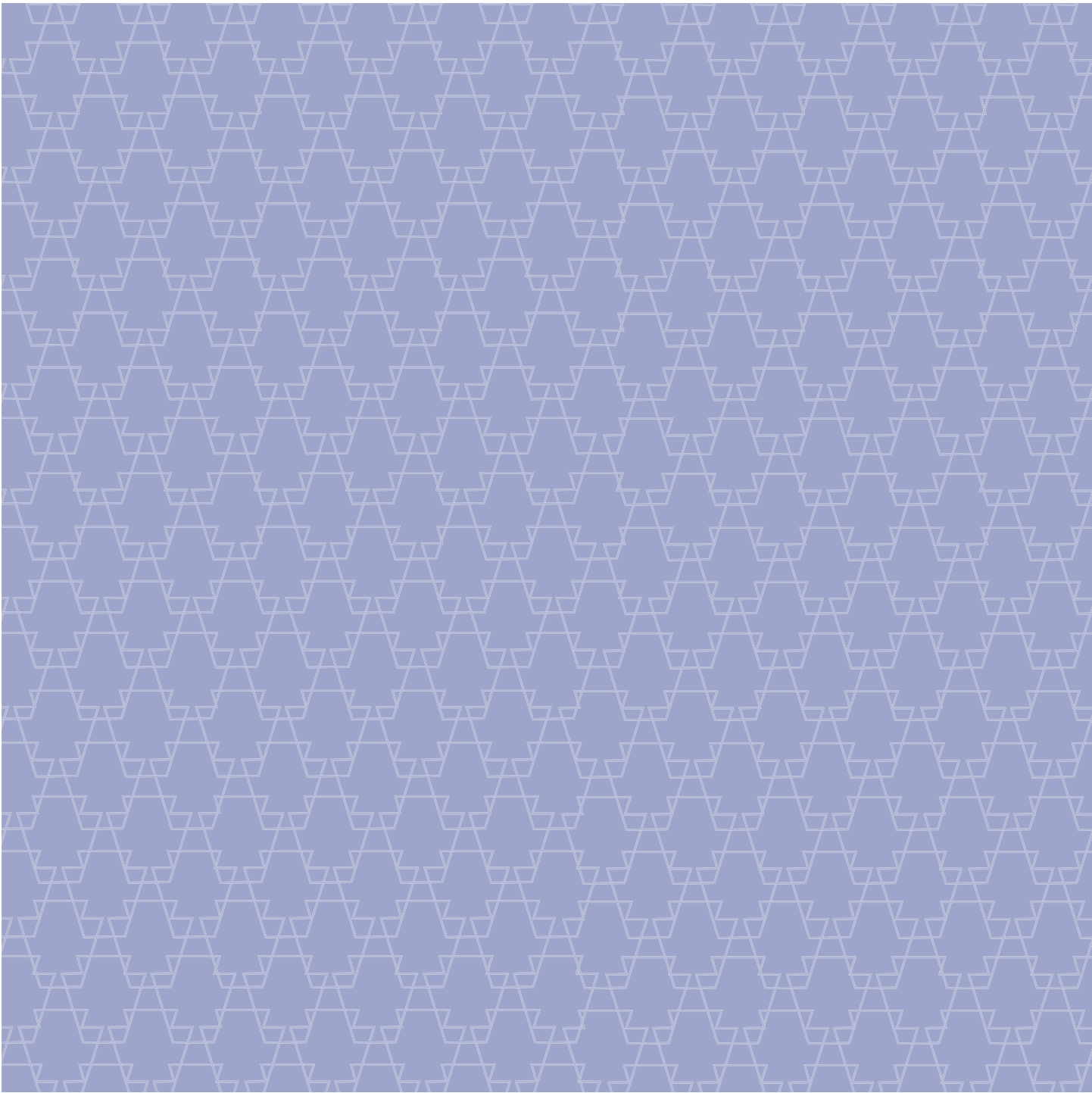
Directed Commissions 4



Directed Commissions

(unaudited)

	FY 2007-08 Budget	FY 2008-09 Budget
Beginning Balance	\$3,324,480	\$2,924,480
Directed Commissions	600,000	400,000
Total Available	\$3,924,480	\$3,324,480
Investment Consultants	\$1,000,000	\$1,500,000
Ending Balance	\$2,924,480	\$1,824,480



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

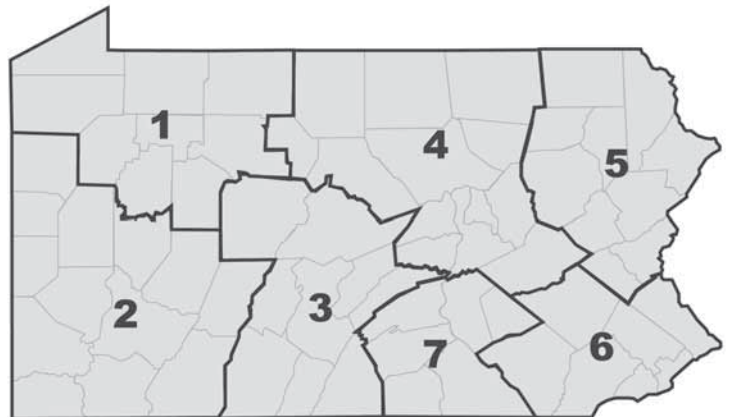
Region 1 Seneca Office Serving Clarion, Crawford, Elk, Erie, Forest, Jefferson, McKean, Venango and Warren counties.

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.

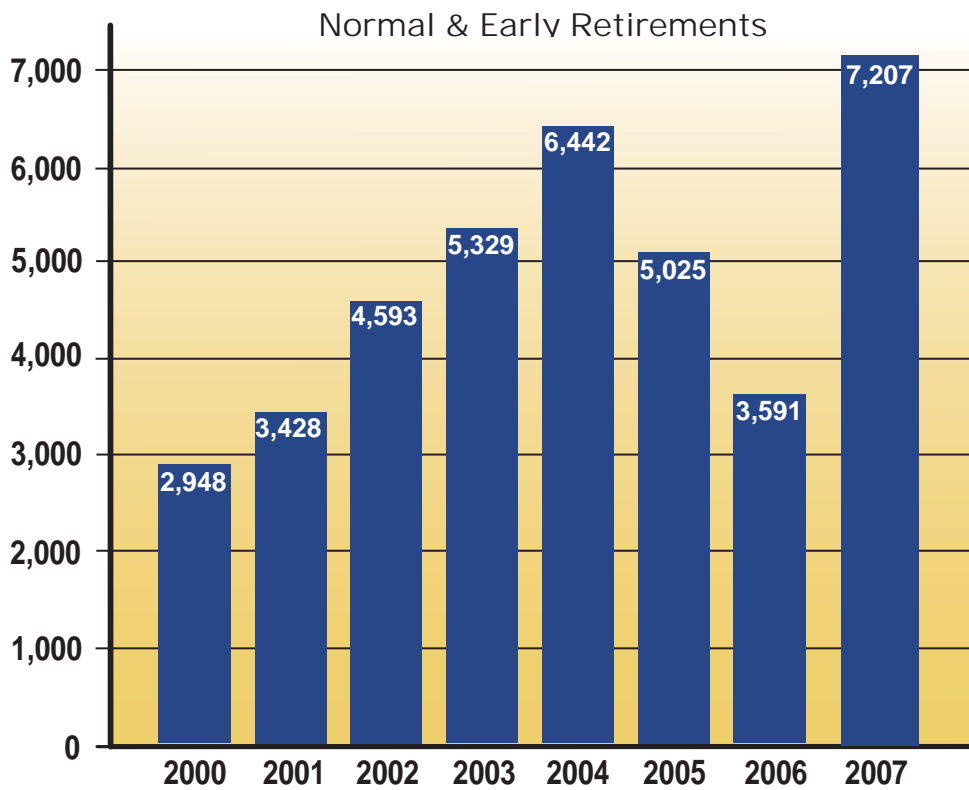
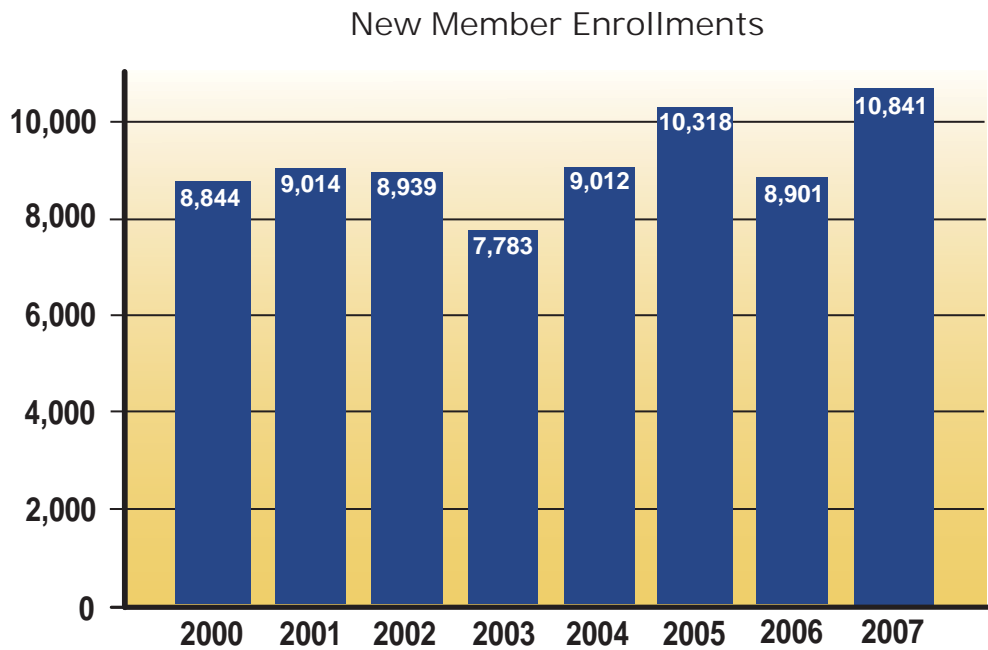
Region 5 Hazleton Office Serving Carbon, Lackawanna, Lehigh, Luzerne, Monroe, Northampton, Pike, Susquehanna, Wayne and Wyoming counties.



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	Annuity & Beneficiaries
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
1999	196,078	108,035	88,043
1998	194,727	108,893	85,834

Since 1998 Annuity and Beneficiaries have increased by 24.8% while the number of Active members has remained relatively steady.

Active Employee Age and Service (as of December 31, 2007)

Average Age:	46.1
Average Years of Service:	12.5

Profile of Annuity, Beneficiaries and Survivor Annuity as of December 31

	Average Age				Average Annual Pension			
	2004	2005	2006	2007	2004	2005	2006	2007
Superannuation Annuity	73.5	73.3	73.4	72.8	\$18,414	\$19,372	\$20,085	\$21,327
Early Retirees	60.6	60.9	61.3	61.4	12,965	13,490	13,638	14,516
Disabled Annuity	60.0	60.1	60.3	60.5	11,989	12,333	12,654	13,026
Beneficiary/Survivors	75.1	75.0	76.0	75.0	7,549	7,981	8,308	8,654

Since 2004 the average superannuation pension has increased 15.8%.



Legislation

Legislation Enacted During 2007

One bill amending the Retirement Code (Title 71) became law during 2007.

HB 876

HB 876 established a permanent employer contribution rate floor of 4%. Governor Rendell signed HB 876 on July 5, 2007 and it became law as Act 8 of 2007.



Funding Process and Actuarial Status 7



Funding Process & Actuarial Status

(unaudited)

SERS administers both a defined benefit plan (the Retirement 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 and 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

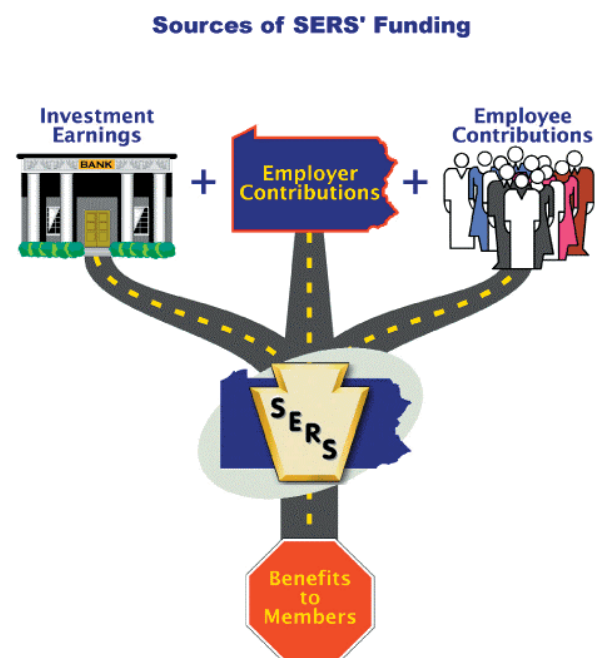
The ultimate cost of the Retirement Fund is determined by the total benefits to be paid to retired employees throughout their lives and to beneficiaries of deceased members. This cost cannot be precisely determined prospectively because the commencement and duration of benefits for active employees and 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



Funding Process & Actuarial Status *(continued)*

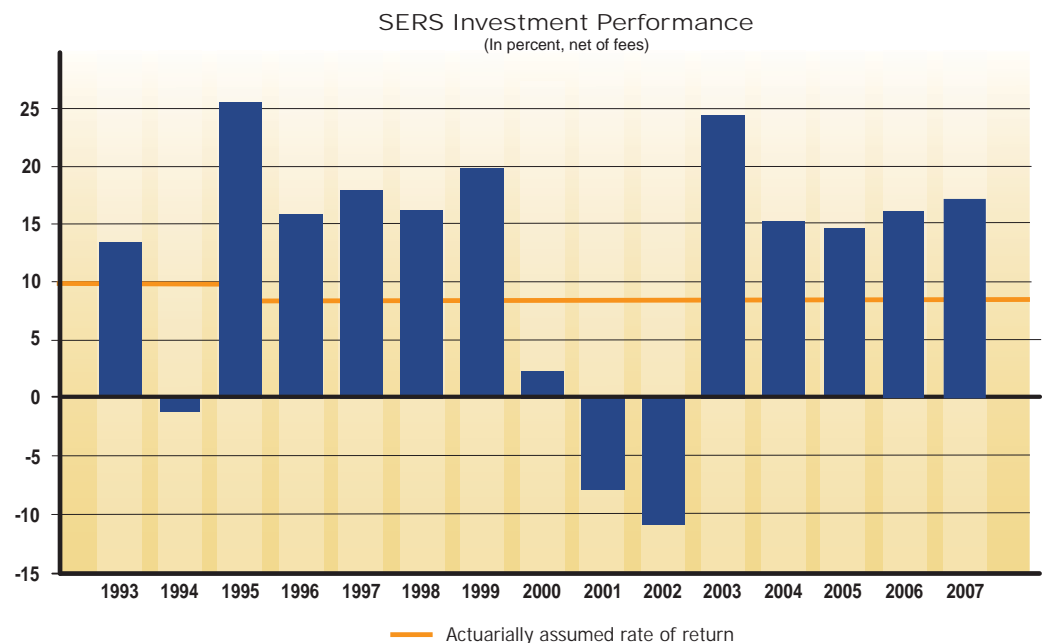
contribute 6.25% of salary, a rate set by statute. The currently assumed annual rate of return on investments is 8.5% (an assumption adopted by the SERS Board based on advice from the staff, investment consultant and actuary). The “normal” employer contribution rate - the amount employers would pay if the assumed rate of return and all other actuarial assumptions proved to be precisely correct - is 8.21% of payroll.

Obviously, however, 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 SERS Board to adjust the employer contribution rate each year based on actual investment returns and actuarial experience. When investment earnings exceed the 8.5% 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. As discussed below, the employer share has recently been as low as zero, is currently 4% and is expected to remain at that level until jumping to a peak of 9.09% in July 2012 and declining in subsequent years.

Funding Source 1:

Investment Earnings

From 1995 through 1999, the Retirement 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%. SERS also posted exceptionally strong returns over the past five years, with earnings of 24.3%, 15.1%, 14.5%, 16.4% and 17.2% for 2003, 2004, 2005, 2006 and 2007, respectively – a five year annualized return of 17.5%. See illustration *SERS Investment Performance at right*. Each of those returns significantly exceeded the actuarially assumed return of 8.5%.



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 5-year period, the Actuarial Value of Assets gradually recognizes the differences between total investment return and the assumed annual rate of return.

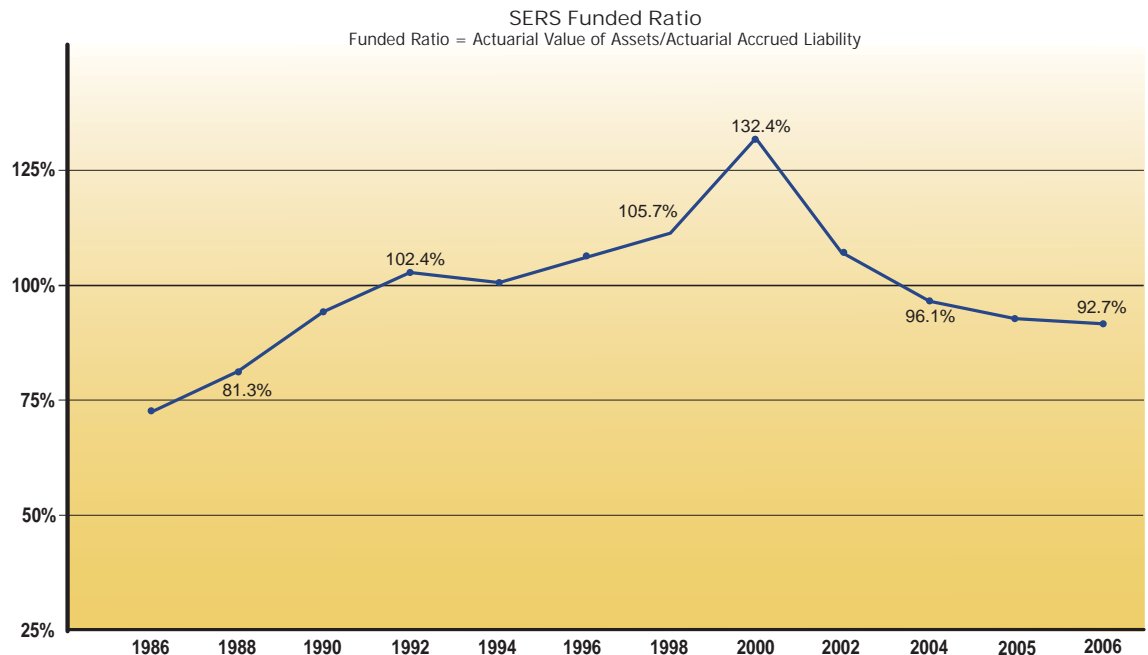
By allocating the investment rate of return over a 5-year period, SERS recognizes only 20% of the asset gain/loss (the difference between the actual return and the actuarial assumption at 8.5%), which occurred during the year immediately preceding the actuarial valuation date, with the remainder to be 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.

Funding Process & Actuarial Status *(continued)*

Funded Position

The funded position of the Retirement Fund is measured by its Funded Ratio -- the Actuarial Value of Assets, divided by the Actuarial Accrued Liability. The most recent actuarial valuation of December 31, 2006, reflects that the Retirement Fund was 92.7% funded. That makes SERS one of the best-funded state pension plans in the nation. By way of comparison,

Wilshire Associates' "2007 Wilshire Report on State Retirement Systems" a compilation of 2006 data on 64 state retirement plans, found that the aggregate actuarial funding level of those plans was just 84%.



The 92.7% funded ratio for 2006 marks a slight decline from 2005, when SERS ended the year 92.9% funded. The system's less-than-fully-funded status is a result of less favorable investment earnings in 2000, 2001, and 2002; Act 2001-9 and the 2002/03 COLA, both of which significantly increased the Retirement Fund's actuarial accrued liabilities, and changes to funding methodologies – most recently Act 2003-40 – which temporarily suppressed employer contribution rates. *See illustration SERS Funded Ratio above.*

To summarize:

- The System has used an actuarially assumed rate of return of 8.5% since 1995.
- During the past 10 years, the Retirement Fund earned a compounded rate of return of 10.1%, significantly higher than the actuarially assumed rate of return.
- SERS employs a five-year averaging method to recognize investment gains and losses.
- SERS has exceeded the actuarially assumed rate of return in 14 of the past 20 years.

Funding Source 2: Employer Contributions

The Board establishes the employer contribution rate annually, based upon 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, the Normal Cost is 8.21%. 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 all participants. However, the Normal Cost alone usually will not fund the Retirement Fund's total liabilities. The total of the liabilities that will not be funded by future Normal Cost is the Unfunded Actuarial Accrued Liability.

Funding Process & Actuarial Status *(continued)*

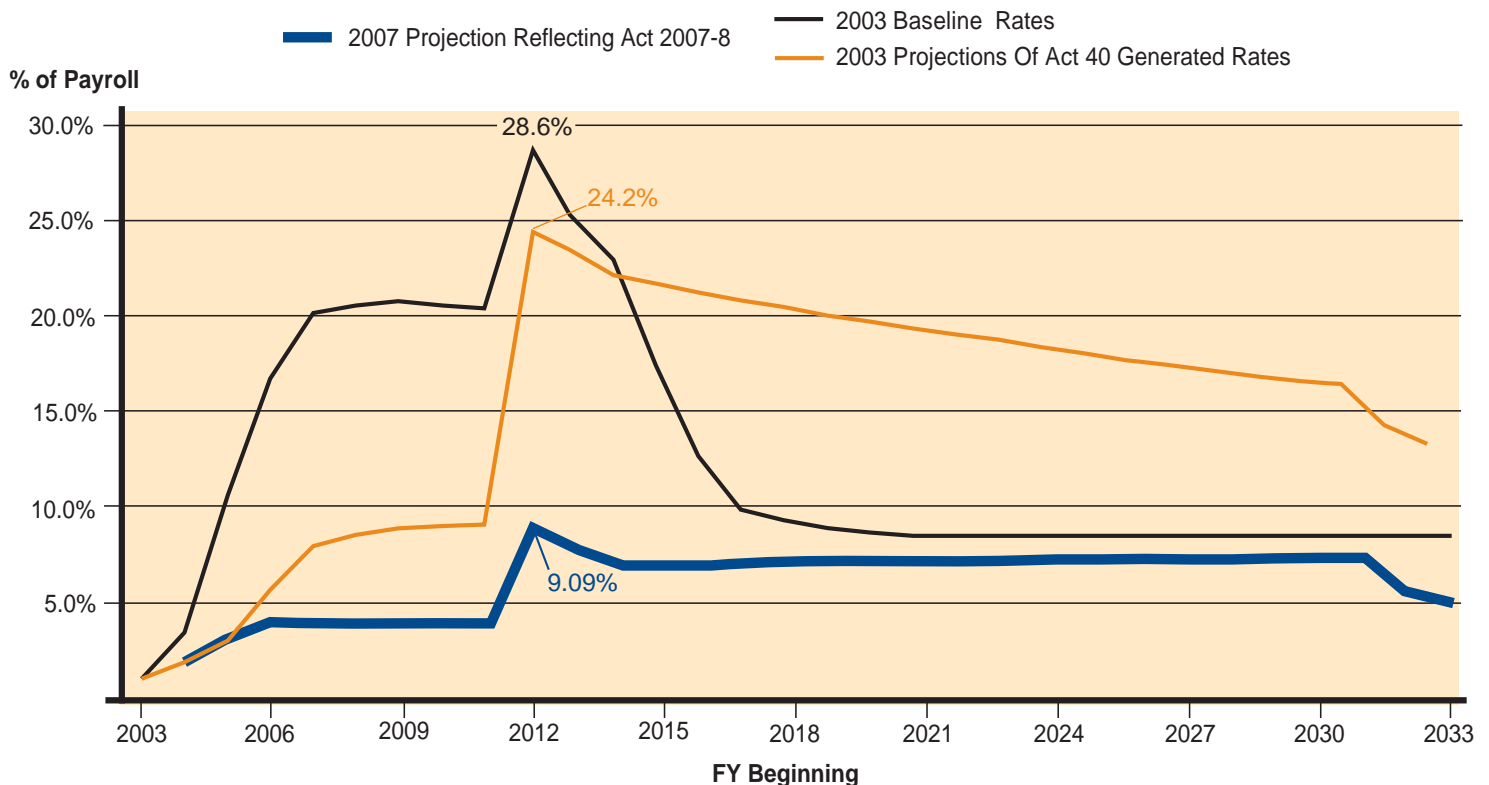
The UAL is amortized – that is, funded – in installments. The Retirement Code was modified in 2003 and now requires amortization payments to be in equal dollar annual installments over a period of 30 years. Act 2003-40 changed the funding period for most, but not all, of SERS’ actuarial liabilities from 10 years to 30 years, effectively spreading out the payment of SERS’ costs and liabilities. In essence, Act 2003-40 refinanced the pension mortgage from a 10-year term to a 30-year term. The Act 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 of 24.2%. That was achieved by pushing payments into the future where, for two decades, rates would be higher than if Act 40 had not been passed.

Since the enactment of Act 40, however, SERS has produced, as previously noted, five years of investment returns far in excess of the assumed rate of return. The combination of strong investment earnings and the extended rate floor has served to greatly reduce the projected future rates. The current actuarial valuation, based on earnings through 2006, projects employer contribution rates will peak in 2012 at 9.09%. When the 2007 earnings are factored in and the new valuation is completed, the projected spike will be even lower.

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 8.5% on investments each year. Earnings in excess of that assumption reduce the projected spike, as we have seen; earnings of less than the assumption would push the projection upward. *See below illustration, Changes in SERS Employer Contribution Rate Projections.*

Changes in SERS Employer Contribution Rate Projections



Funding Process & Actuarial Status *(continued)*

Employer Contribution Provisions

- Employer contributions to SERS represent the Normal Cost to fund the Retirement Fund and payments to fund the Unfunded Actuarial Liability.
- As a result of strong investment performance, the employer contribution rate was reduced to 0.0% in the 2000 and 2001 Actuarial Reports.
- SERS now has a statutory 4% rate floor, which will prevent rates from falling to zero again in the future.
- The currently projected 2012 peak rate is 9.09%, down from the 24.2% spike that Act 2003-40 was expected to produce.

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 also receive a reduced annuity based on the remaining value of the member's retirement account. Election of Option 4 increases the cost to the Retirement Fund because the refund is calculated at 4% interest whereas it is assumed that, if the accumulated deductions were left in the Retirement Fund, they would earn 8.5% interest. More than 90% of retirees choose the Option 4 refund.

Funding Source 3: Employee Contributions

The simplest component of the funding scheme is employee contributions. Pursuant to the Retirement Code, SERS members pay a statutorily determined contribution rate. Most SERS members contribute to the Retirement Fund at the rate of 6.25% of their gross compensation. Commonwealth employees made approximately \$333 million in contributions in 2007.

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 eligibility points, and all disabled retirees. COLAs are payable to early retirees once they reach superannuation age. The Pennsylvania Constitution prohibits paying COLAs to beneficiaries of deceased members or survivor annuitants.

COLAs increase the Retirement 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.

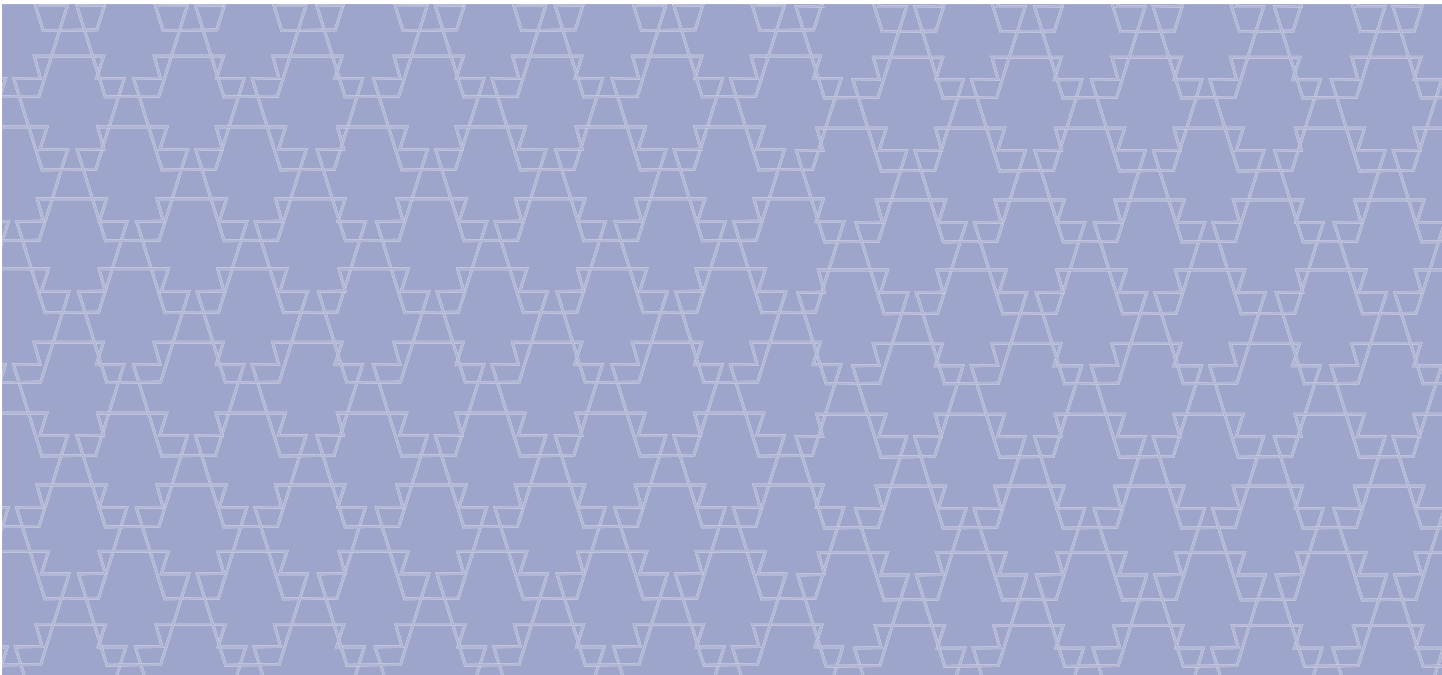
Funding Process & Actuarial Status *(continued)*

Funding of Supplemental Annuities

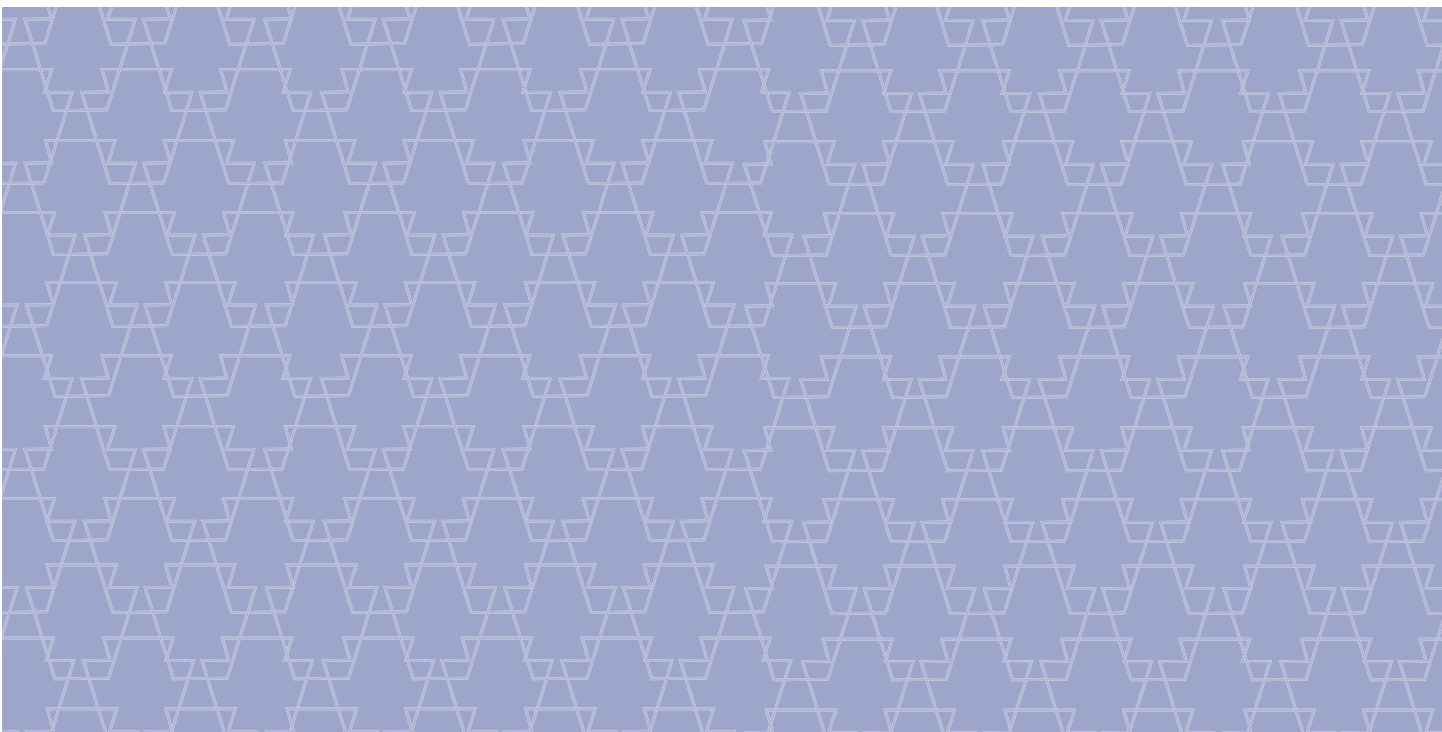
- Because the Retirement Code does not provide for automatic COLAs or the necessary funding, each new supplemental annuity must be legislated individually.
- Every supplemental annuity or COLA enacted since 1968 required an amendment to the Retirement Code and added a new liability to the Retirement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

Benefits to Members

- At retirement, SERS calculates the actuarial value of the annuity to be paid over the remaining life of the member and transfers the balance of the member's accumulated deductions and reserves from the State Accumulation Account into the Annuity Reserve Account to pay the lifetime benefit.
- The Annuity Reserve Account contains funds for all current retirees and beneficiaries based on the amount of the original benefit at retirement.
- No funds are in the Annuity Reserve Account to pay for future COLAs.



Investment Policy, Objectives and Performance 8



Investment Policy

The State Employees' Retirement 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 2007. 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 persons 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 Investment Plan is prepared to establish the allocation of funds during the year among investment advisors and categories of assets;
- Guidelines are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification and liquidity; 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 Stocks a total return that exceeds the total return of the MSCI World Index;
- Achieve in the Stand Alone Absolute Return Strategy a total return that exceeds LIBOR plus 300 basis points;
- Achieve in U.S. Stocks a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in Non-U.S. Stocks a total return that exceeds the total return of the SERS Custom International Stock Index;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Fixed Income Custom Index;
- Achieve in Inflation Protection a total return that exceeds the total return of the SERS Inflation Protection Custom Benchmark;
- Achieve in the Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Cash asset class a total return that exceeds the total return on U.S. Treasury Bills (90 days);
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark.

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 Trends

Prudent Investor Investment Standards

The SERS 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 2003 asset/liability study completed by Rocatton Investment Advisors and the SERS Investment Staff are the foundation of SERS' *Year 2008 Annual Strategic Investment Plan*. With prudent investor investment authority, SERS is able to pursue a broader array of investment opportunities that enhance the ability to achieve competitive 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 the Fund.

Total Fund Asset Allocation

Unlike prior plan years, where implementation was expected to evolve over a period of five years, the strategic targets have effectively been achieved due to various Board actions and the implementation of a rebalancing account.

Asset Allocation		
2007 Actual		Strategic
4.9%	Global Stocks	5.0%
20.0%	U.S. Stocks	21.0%
20.3%	Non-U.S. Stocks	21.0%
9.4%	Absolute Return	9.0%
13.8%	Fixed Income	15.0%
8.6%	Real Estate	8.0%
15.6%	Alternative Investments	14.0%
7.4%	Inflation Protection	7.0%
0.0%	Cash	0.0%
100.0%		100.0%

Estimated Investment Performance*

Calendar Year Basis

through December 31, 2007 (net of fees)

Asset Class	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stocks	12.3%	N/A	N/A	N/A
MSCI World	9.0%	N/A	N/A	N/A
U.S. Stocks	9.5%	11.8%	16.6%	7.8%
Russell 3000 Index ^{1/}	5.1%	8.9%	13.6%	6.2%
Non-U.S. Stocks	17.0%	20.9%	24.6%	12.0%
SERS Custom International Stock Benchmark ^{2/}	15.2%	21.1%	25.2%	10.6%
Fixed Income	6.1%	6.2%	7.8%	6.7%
SERS Custom Fixed Income Benchmark	5.4%	5.7%	6.5%	6.0%
Cash	5.1%	4.3%	3.2%	3.9%
90 day U.S. T-bills	5.0%	4.3%	3.1%	3.8%
Real Estate ^{3/}	22.6%	23.5%	19.1%	14.4%
Townsend Stylized Benchmark	16.6%	19.1%	16.6%	13.4%
Private Equity ^{3/}	41.0%	33.1%	27.1%	19.2%
Cambridge Private Equity Index	29.7%	29.4%	23.9%	15.1%
Venture Capital ^{3/}	16.7%	11.2%	2.6%	6.4%
Cambridge Venture Capital Index	22.6%	15.0%	8.0%	15.0%
Inflation Protection	31.4%	15.3%	17.0%	N/A
Inflation Protection Custom Index	24.7%	13.3%	15.5%	N/A
Total Fund	17.2%	16.0%	17.5%	10.1%
Total Fund Benchmark	12.8%	14.2%	15.8%	8.9%

* Returns for periods longer than one year are annualized.

^{1/} The U.S. Stocks Benchmark is the Wilshire 5000 Index through 12/31/98, and the Russell 3000 thereafter.

^{2/} The Non-U.S. Stocks Composite and the Custom International Index were hedged between May 1, 1996 and January 31, 2007.

^{3/} Results for the Real Estate, Private Equity, Venture Capital and Indices are lagged one quarter.

Investment Performance*

Commonwealth Fiscal Year Basis

through June 30, 2007 (net of fees)

Asset Class	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 year Total Return
U.S. Stocks	25.8%	15.9%	14.3%	9.1%
Russell 3000 Index ^{1/}	20.1%	12.4%	11.5%	7.5%
Non-U.S. Stocks	34.0%	26.0%	19.8%	10.9%
SERS Custom International Stock Benchmark ^{2/}	31.1%	26.5%	20.8%	9.2%
Fixed Income	9.5%	7.3%	8.4%	6.9%
SERS Custom Fixed Income Benchmark	8.8%	6.3%	7.2%	6.3%
Cash	5.0%	3.7%	2.8%	3.9%
90 day U.S. T-bills	5.2%	3.8%	2.8%	3.8%
Real Estate ^{3/}	20.9%	22.0%	17.5%	14.4%
Townsend Stylized Benchmark	19.6%	19.3%	15.8%	13.6%
Private Equity ^{3/}	30.7%	28.6%	21.3%	19.3%
Cambridge Private Equity Index	28.6%	27.8%	19.7%	15.8%
Venture Capital ^{3/}	8.2%	8.7%	-2.5%	7.5%
Cambridge Venture Capital Index	14.4%	13.7%	1.6%	17.3%
Inflation Protection	-2.9%	11.7%	16.5%	N/A
Inflation Protection Custom Index	-6.3%	9.2%	15.3%	7.4%
Total Fund	22.2%	17.5%	14.6%	10.2%
Total Fund Benchmark	19.2%	16.3%	13.6%	9.2%

* Returns for periods longer than one year are annualized.

^{1/} The U.S. Stock Benchmark was the Wilshire 5000 through 12/31/98, and the Russell 3000 thereafter.

^{2/} The SERS Custom Non-U.S. Stock Benchmark 26% hedged between May 1, 1996 and January 31, 2007.

^{3/} Results for the Real Estate, Private Equity, Venture Capital and Indices are lagged one quarter.

Investment-Related Statistics

SERS Investment-Related Statistics Calendar Year 1980 through 2007 (Unaudited)

Year End	SERS Fund Market Value (\$ millions) ^{1/}	# of Investment Advisors	# of Portfolios	# of Consultants	Annual Total Fund Rate of Return
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 ^{2/}	163	3	16.3%
1999	28,093	116	204	3	19.9%
2000	27,881	132	245	3	2.2%
2001	24,706	143	277	3	-7.9%
2002	20,880	149	289	3	-10.9%
2003	24,535	153	295	4	24.3%
2004	26,641	163	324	4	15.1%
2005	28,805	167	364	3	14.5%
2006	32,098	180	403	3	16.4%
2007	35,542	190	438	3	17.2%

^{1/} Market values for Real Estate and Alternative Investments are lagged by one quarter adjusted for allocations and distributions. Market values also include non-investment receivables and payables.

^{2/} Restated in 1998 and thereafter to eliminate double counting of managers managing assets across asset classes.

Plan & Investment Class Rankings

The January 21, 2008, edition of *Pensions & Investments* listed a ranking of U.S. pension plan sponsors according to total assets and amounts invested in various asset classes as of September 30, 2007. The survey results for the total SERS Fund (defined benefit plan plus the defined contribution plan), as well as for various asset classes are listed below.

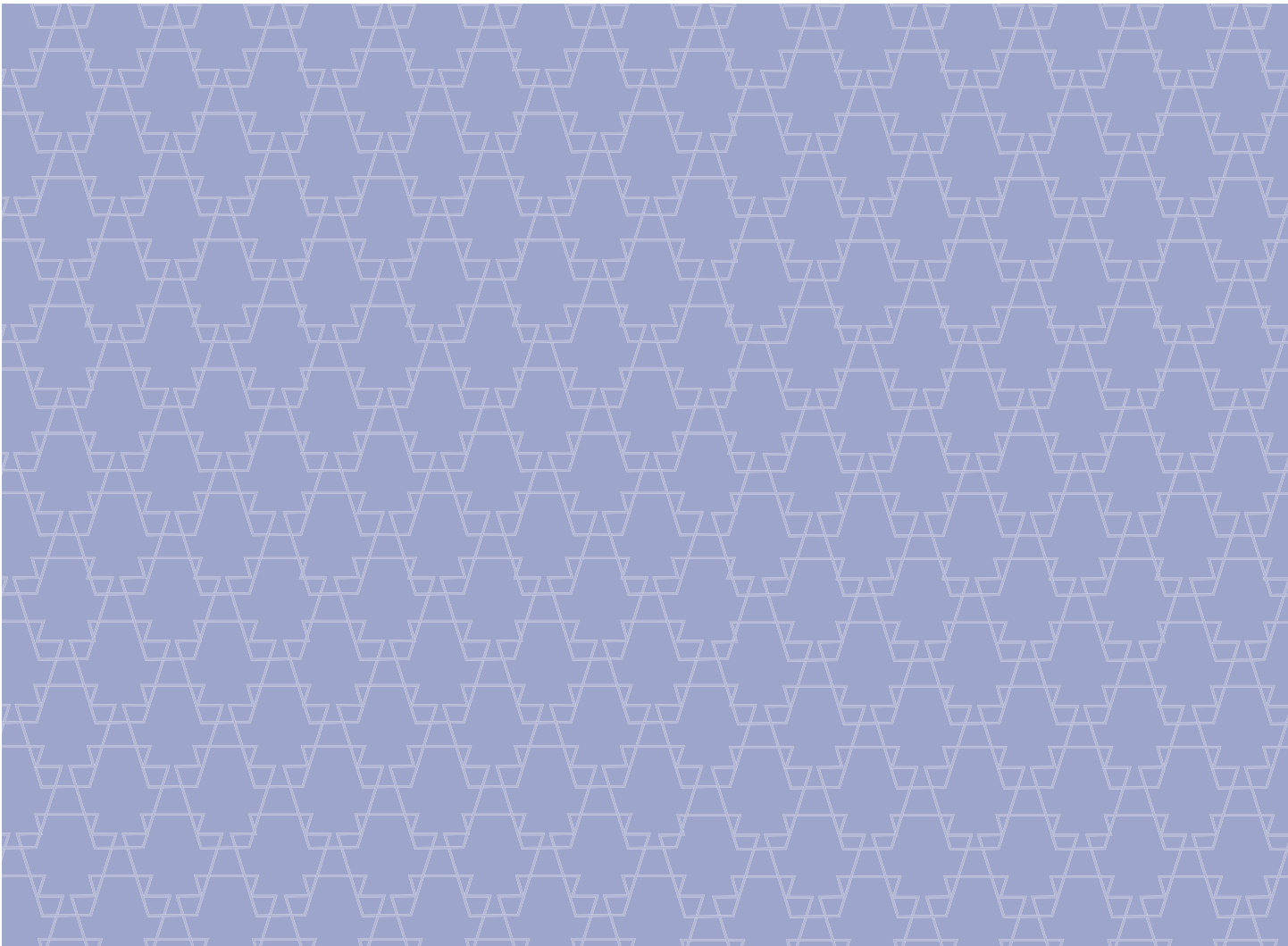
Plan and Investment Class Rankings
as of September 30, 2007

Category	Amount (\$ mil)	Total Fund Rank	Public Fund Rank
SERS ^{1/}	\$37,318	38 th	25 th
Venture Capital ^{2/}	1,324	5 th	5 th
Buyouts ^{3/}	2,813	12 th	11 th
Real Estate	2,181	22 nd	19 th

^{1/} The *Pensions & Investments* survey ranked plan sponsors according to the combined assets of their defined benefit and defined contribution plans.

^{2/} The Venture Capital data reflects only the market value of actual funded investments as of June 30, 2007. SERS also has outstanding unfunded commitments for the Venture Capital area that have been approved by the Board. In total, since inception, SERS has made \$3,326.0 million in actual Venture Capital commitments through December 31, 2007.

^{3/} The Private Equity data reflects only the market value of actual funded investments as of June 30, 2007. SERS also has outstanding unfunded commitments for the Private Equity area that have been approved by the Board. In total, since inception, SERS has made \$9,027.4 million in actual Private Equity, Distressed Debt and Buyout commitments through December 31, 2007.



Investment Program Summary 9



Investment Program Summary

as of December 31, 2007 - (unaudited)

The assets of the State Employees' Retirement System (SERS) are administered by the SERS Board (Board). The Board has 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. The 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, 2007: SERS' assets had an unaudited market exposure of approximately \$35,542.2 million.

SERS Asset Allocation

Assets	Market Exposure (Unaudited)		Long-Term Target Allocation
	\$ (mil)	%	
Global Stocks	\$1,733.4	4.9%	5.0%
U.S. Stocks	7,129.1	20.0%	21.0%
Non-U.S. Stocks	7,203.3	20.3%	21.0%
Absolute Return	3,340.5	9.4%	9.0%
Fixed Income	4,913.7	13.8%	15.0%
Real Estate	3,054.4	8.6%	8.0%
Alternative Investments	5,543.3	15.6%	14.0%
Inflation Protection	2,624.4	7.4%	7.0%
Cash	0.0	0.0%	0.0%
Total	\$35,542.2	100.0%	100.0%

Number of Investment Advisors: SERS had 190 external investment advisory firms managing portfolios. There are 47 advisors in the public markets domain and 168 in alternative investments and real estate. Sixteen of these advisors manage 41 portfolios across asset classes.

- 3 Global Stock advisors
- 11 U.S. Stock advisors
- 12 Non-U.S. Stock advisors
- 2 Absolute Return advisors
- 1 Currency Overlay advisor
- 13 Fixed Income advisors
- 2 Cash advisors
- 3 Inflation Protection advisors
- 27 Real Estate advisors
- 54 Venture Capital general partners managing limited partnerships
- 87 Private Equity general partners managing limited partnerships

In addition, Board appointments included one real estate advisor.

Number of Investment Portfolios: SERS had 438 investment portfolios/accounts. Fifty-five of these accounts are public market investments, while 383 covered private markets.

- 3 Global Stock portfolios
- 12 U.S. Stock portfolios
- 16 Non-U.S. Stock portfolios
- 2 Absolute Return portfolios
- 1 Currency Overlay portfolio
- 16 Fixed Income portfolios
- 2 Cash portfolios
- 3 Inflation Protection portfolios
- 61 Real Estate portfolios
- 114 Venture Capital limited partnership interests
- 208 Private Equity limited partnership interests

In addition, Board appointments included two real estate portfolios, one Non-U.S. stock portfolio, and three private equity limited partnerships.

Global Stock Investments Summary

as of December 31, 2007 - (unaudited)

Global stocks is one of eight 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 stocks 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' 2008 Investment Plan targets an allocation of 5% of Fund assets to global stocks.

Market Exposure as of December 31, 2007: Global stocks had a \$1,733.4 million market exposure, 4.9% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: SERS had contracts with 3 external investment advisors to manage global stock portfolios.

Number of Investment Portfolios: SERS had 3 global stock portfolios managed by the 3 investment advisors.

Type of Investment Portfolios: As of December 31, 2007, SERS global stock allocation was to all cap strategies.

SERS Global Stock Investments

		*Market Exposure as of 12/31/07 (\$ millions)
Global Stock Investment Advisor	Investment Style	
1. Walter Scott & Partners Limited	Growth	\$718.4
2. Marathon-London Global Fund	Contrarian sector relative value	1,059.2
3. NISA Investment Advisors, L.L.C.	Rebalancing and equitization	(44.2)
Total Global Stocks		\$1,733.4

**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, 2007 - (unaudited)

U.S. Stocks is one of eight 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 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 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 derivative instruments that provide stock like returns.

SERS' 2008 Investment Plan targets a long-term allocation of 21.0% of assets to U.S. Stocks. The U.S. stocks structure reflects the broad U.S. market in terms of capitalization (large and mid/small). SERS U.S. stock portfolio, in aggregate, will strive to reflect the risk characteristics of the Russell 3000 Index, which is a good proxy for the broad, investable U.S. stock market.

The large cap segment of the portfolio is benchmarked to the S&P 500 Index utilizing enhanced indexed and a transportable alpha strategy utilizing funds-of-hedge funds. The remainder of the portfolio represents the mid/small capitalization segment of the U.S. stock market. Exposure to the mid/small capitalization segment of the market is achieved with traditional active strategies benchmarked to the Russell Midcap Index, the Russell 2500 Index, and the Russell Microcap Growth Index as well as synthetic index replication through the use of futures and swaps.

Market Exposure as of December 31, 2007: U.S. Stocks had a \$7,129.1 million market value, 20.0% of the total fund's \$35,542.2 million market value.

Number of Investment Advisors: SERS had contracts with 11 external investment advisors to manage 12 U.S. Stock portfolios.

Number of Investment Portfolios: SERS had 12 U.S. Stock portfolios managed by the 11 investment advisors.

Type of Investment Portfolios: As of December 31, 2007, 81.2% of SERS U.S. Stock allocation was in large capitalization stock strategies, and 18.8% was in mid/small capitalization stock strategies. SERS has one equitization manager to replicate equity indices for the equitization portion of the portable alpha and rebalancing strategies.

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

SERS U. S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	*Market Exposure As of 12/31/07 (\$ Millions)
Large cap		
S&P 500 Index swaps and portable alpha strategies		
1. NISA Investment Advisors, L.L.C.	Rebalancing and equitization	\$831.3
2. Blackstone Alternative Asset Management L.P.	Fund-of-Hedge Funds	2,153.0
3. Pacific Alternative Asset Management Company, LLC	Fund-of-Hedge Funds	2,221.0
4. Robeco Sage Capital	Fund-of-Hedge Funds	24.9
Traditional large cap		
5. Barclays Global Investors Alpha Tilts Fund	Enhanced S&P 500 Index	556.7
Mid/small cap		
6. Iridian Asset Management LLC	Midcap private business value	183.6
7. AXA Rosenberg Investment Management LLC	Risk-controlled Russell 2500	165.7
8. Emerald Advisers, Inc.	Pennsylvania companies	315.7
9. Mellon Capital Management Corporation	Pennsylvania companies	245.6
10. NorthPointe Capital, LLC	Microcap growth	33.4
11. Turner Investment Partners, LLC	Quantitative microcap growth	34.3
NISA Investment Advisors, LLC	Rebalancing and equitization	363.9
Total U.S. Stocks		\$7,129.1

**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, 2007 - (unaudited)

Non-U.S. stocks is one of eight 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 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 Non-U.S. Stock asset class is managed on a total return basis.

SERS' long term investment objective for the non-U.S. stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI EAFE Index, a proxy for large cap stocks in non-U.S. developed markets; the S&P/Citigroup Extended Market Index Europe and Pacific, a proxy for mid/small cap stocks in non-U.S. developed markets; and the MSCI Emerging Markets Index, a proxy for stocks in emerging markets.

SERS' 2008 Investment Plan targets a long-term allocation of 21.0% of assets to Non-U.S. Stocks comprised of 17.0% to developed markets and 4.0% to emerging markets.

Market Exposure as of December 31, 2007: Non-U.S. Stocks had a \$7,203.3 million market exposure, or 20.3% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: SERS had contracts with 12 external investment advisors to manage 16 non-U.S. stock portfolios.

Number of Investment Portfolios: SERS had 16 accounts managed by the 12 investment advisors.

Type of Investment Portfolios: As of December 31, 2007, assets were diversified among direct accounts, synthetic equitization, and a transportable alpha strategy utilizing funds-of-hedge funds. Exposure, representing 16.4% of total Fund assets was allocated to stocks in non-U.S. developed markets, while 3.9% of total Fund assets was allocated to strategies dedicated to stocks in 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 12/31/07 (\$ millions)
Large cap		
MSCI EAFE Index Exposure		
1. NISA Investment Advisors, L.L.C.	Rebalancing and equitization	\$(186.5)
2. Arden	Fund-of-Hedge Funds	888.1
3. Rock Creek	Fund-of-Hedge Funds	892.8
Traditional large cap		
4. Artisan Partners Limited Partnership	Global ex U.S. growth	855.8
5. Templeton Investment Counsel, LLC	Global ex U.S. 5-year stock value	1,058.6
6. Morgan Stanley Investment Management Limited	Developed ex U.S. cash flow value	973.5
Mid/Small cap		
7. BlackRock Investment Management International Limited	Growth	473.0
8. Pictet Asset Management Limited	Value with growth	431.0
9. Harris Associates L.P.	Intrinsic value	437.6
Emerging markets		
10. Rexiter Capital Management Limited	Core	225.7
11. Bernstein Investment Research and Management	Value	222.4
Pictet Asset Management Limited Emerging markets equity team	Value	317.6
Templeton Asset Management Ltd. TIFI Emerging Markets Series	Value	309.6
Templeton Asset Management Ltd. Templeton Strategic Emerging Markets Fund II, L.P.	Private placements with public companies	217.0
12. Oaktree Capital Management	Long/short Hedge Fund	153.1
NISA Investment Advisors, L.L.C.	Rebalancing and equitization	(66.0)
Total Non-U.S. Stocks		\$7,203.3

**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, 2007 - (unaudited)

SERS uses Absolute Return Strategies as part of its program 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. SERS contracts with external funds-of-hedge fund investment advisors to manage these portfolios.

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

SERS' long term investment objective for the Stand-Alone Absolute Return Strategies is to achieve a total return, net of fees, that exceeds LIBOR plus 300 basis points.

SERS' 2008 Investment Plan targets an allocation of 9.0% of Fund assets to Stand-Alone Absolute Return Strategies.

Market Exposure as of December 31, 2007: Stand-Alone Absolute Return Strategies had a \$3,340.5 million market value, approximately 9.4% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: SERS had contracted with two external investment advisors to manage the Stand-Alone Absolute Return Strategies.

Number of Investment Portfolios: SERS had two Stand-Alone Absolute Return Strategies portfolios managed by the two funds-of-hedge funds investment advisors.

Type of Investment Portfolios: As of December 31, 2007, SERS' Absolute Return Strategies were globally diversified across all major asset classes consisting of six major strategies and 20 sub-strategies.

SERS Absolute Return Strategies Investments

		*Market Exposure as of 12/31/07 (\$ millions)
Investment Advisor	Strategy	
1. Mesirow	Fund-of-Hedge Funds	\$1,809.4
2. Morgan Stanley	Fund-of-Hedge Funds	1,531.1
Total		\$3,340.5

**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, 2007 - (unaudited)

Fixed Income is one of eight 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 the 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 Index which is comprised of the Lehman Intermediate, Lehman Aggregate, the Citigroup High Yield Market and J.P. Morgan Emerging Market Bond indices.

SERS' 2008 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, 39% is targeted to the core strategies and 61% to specialty strategies (high-yield and emerging market debt).

Market Exposure as of December 31, 2007: Fixed Income had a \$4,913.7 million market exposure, 13.8% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: SERS had contracts with 13 external investment advisors to manage 16 portfolios within the Fixed Income asset class as of December 31, 2007.

Number of Investment Portfolios: SERS had a total of 16 portfolios within the Fixed Income asset class.

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 three actively managed core bond portfolios: one Custom Intermediate Duration Treasury Inflation Protection (TIPS) portfolio, one Lehman Aggregate portfolio, and one Lehman Credit portfolio. The three actively managed core portfolios totaled \$1,680.1 million. In addition, SERS had one passively managed Lehman Aggregate bond portfolio of \$286.3 million. The combination of core portfolios represented 40.3% of the asset class.

Specialty: The specialty strategy portfolios (high-yield, emerging market debt, subordinated debt, and mezzanine debt) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS has corporate high yield portfolios with a market value of \$1,186.5 million, emerging market debt portfolios with a market value of \$1,448.0 million, and one high yield commercial mortgage-backed securities portfolio with a market value of \$297.5 million. The specialty portfolios represent 59.7% of the asset class.

Fixed Income Investments Summary *(continued)*

SERS Fixed Income Investments

Fixed Income Investment Advisor	Investment Style	*Market Exposure As of 12/31/07 (\$ Millions)
Core		
1. Standish (Mellon)	Domestic – index	\$286.3
2. Morgan Stanley	Active domestic	924.6
3. Taplin, Canida & Habacht	Active domestic	108.9
4. NISA Investment Advisors, LLC	Active intermediate duration TIPS	646.8
NISA Investment Advisors, LLC	Rebalancing and equitization	15.0
Specialty		
5. Berwind (Eureka) Financial Group	PA Capital Fund	5.0
6. Fidelity Management Trust Company	Commercial mortgage backed securities	297.5
7. Oaktree Capital Management	Mezzanine Fund	1.3
8. Stone Harbor (Salomon)	Global high yield	689.4
Stone Harbor (Salomon)	Emerging market debt	432.8
9. W. R. Huff Asset Management	High yield bonds	490.9
10. Ashmore AEMDF	Emerging market debt (\$U.S.)	257.5
Ashmore LCD	Emerging market debt – local	173.9
11. Gramercy Advisors	Emerging market debt –absolute return	134.3
12. Greylock Capital Management	Emerging market debt –absolute return	120.1
13. PIMCO	Emerging market debt	329.4
Total		\$4,913.7

**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, 2007 - (unaudited)

Cash is one of eight major asset classes that SERS uses for investments of the Fund. The SERS' Investment Plan calls for minimizing cash balances while meeting cash flow requirements. In 2007 the Fund adopted a rebalancing strategy that would enhance the Fund's liquidity profile by providing a ready pool of cash that would be equitized with synthetic investments, including futures and swaps, to provide measured equity and fixed income exposure. So, while the cash balances have increased, it has not resulted in an effective increase of the Fund's allocation to cash. The Fund was able to preserve its historical asset allocation of zero percent to cash; while earning market returns as though those funds were invested in equity or fixed income markets. The rebalancing strategy does not use leverage.

Investment Objective: Cash investments are employed by the Fund to provide for SERS' liquidity needs and to accumulate funds for future investment. The Cash asset class is to be managed on a total return basis, with the exception that temporary investments such as overnight repurchase agreements ("repo"), commercial paper, and banker's acceptance may alternatively be evaluated on a yield-to-maturity basis given their extremely short maturities.

Cash balances are evaluated on a monthly basis to determine that appropriate equity and fixed income market exposures are being maintained, and adjusted if necessary using swaps and futures to obtain the desired market exposure.

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. SERS' current Investment Plan targets an allocation of 0% of dedicated assets to the Cash asset class, while maintaining between \$300-\$900 million in short term investments equitized with equity and fixed income derivatives. The cash liquidity is used to support the Fund's benefit payments, swap payments for its portable alpha program and operational expenses of the Fund. The cash return offsets the cost of the derivatives used in the equitization and rebalancing program.

Market Exposure as of December 31, 2007: The effective cash exposure at December 31, 2007 was zero. Cash investment underlying the rebalancing and equitization strategies had a \$709.4 million market value, 2.0% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: The cash and rebalancing strategies use two advisors. The Pennsylvania State Treasury Department manages the uninvested cash in the liquidity accounts, and NISA Investment Advisors manages the cash and synthetic overlays for the equitization and rebalancing accounts. The \$709.4 million of cash holdings have been allocated to the respective asset classes in this report based upon the synthetic exposures in place on December 31, 2007.

Number of Investment Portfolios: SERS' cash portfolio is managed primarily by the Treasurer. Certain short term cash investments and the synthetic overlays for the fixed income and equity markets are managed by NISA Investment Advisors.

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 held in the rebalancing account are invested in high-quality, highly liquid, short-term investments including the Treasurer's STIF pool.

In the aggregate, the State Treasury managed approximately \$1,055.8 million on behalf of SERS and SERS' external investment advisors as of December 31, 2007.

Real Estate Investments Summary

as of December 31, 2007 - (unaudited)

Real Estate is one of eight 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 plan, SERS contracts with external investment advisors to manage the 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 NCREIF Index for rolling five year periods. SERS' 2008 Investment Plan targets a long-term allocation of 8% 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; and
- Development phase.

Market Value as of December 31, 2007: Real Estate had an estimated \$3,054.4 million market value, approximately 8.6% of the total Fund's December 31, 2007 market value. This market value represents September 30, 2007 actual numbers adjusted for cash flows, which occurred in the fourth quarter 2007. 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 27 external investment advisors to manage real estate portfolios as of September 30, 2007.

Number of Investment Portfolios: SERS had investments in 61 real estate portfolios managed by the 27 investment advisors.

Type of Investment Portfolios: As of September 30, 2007, the composition of the real estate portfolio was:

- 30% pooled funds, 70% separate accounts
- 25% office, 6% industrial, 8% retail, 22% residential, 12% hotel/motel, 8% timber, 19% other (including senior and student housing, land and various niche property investments)
- 12% Pennsylvania, 26% East excluding PA, 28% West, 14% South, 5% Midwest, 15% International
- 28% of the market value of the separate accounts was invested in seventeen investments located in Pennsylvania

Real Estate Investments Summary *(continued)*

SERS Real Estate Investments

Real Estate Investment Advisor	SERS Initial Funding	Property Type	Transaction Structure	*Market Value as of 9/30/07 (\$ millions)
1. AG Asia Realty Fund	04/26/07	Int'l Opportunistic	equity and debt	\$2.1
2. Apollo – AREF III	06/26/98	Opportunistic	equity and debt	28.1
3. Berwind – BPG Fund IV	04/20/98	Opportunistic	equity and debt	4.0
BPG Fund V	11/29/99	Opportunistic	equity and debt	16.1
BPG Fund VI	09/09/02	Opportunistic	equity and debt	17.3
BPG Fund VII	09/12/05	Opportunistic	equity and debt	23.6
BPG Fund VIII	07/16/07	Opportunistic	equity and debt	3.2
4. Blackstone – BREP III	10/22/99	Opportunistic	equity and debt	3.0
BREP IV	12/08/03	Opportunistic	equity and debt	24.5
BREP V	01/24/06	Opportunistic	equity and debt	53.3
BREP VI	03/28/07	Opportunistic	equity and debt	15.6
5. Cliffwood Select Equity Fund	08/04/00	Long/Short REITs	public securities	45.0
6. Colony Investors Fund VIII	09/18/07	Opportunistic	equity and debt	2.6
7. ING Real Estate Securities	01/31/96	REITs	public securities	495.8
8. Fidelity Opp. Income Fund	04/02/07	Debt	debt	22.0
9. Fillmore East Capital Partners	06/29/06	Debt	debt	19.4
10. Forest Investment Assoc.	10/30/92	Timber	equity ownership	220.0
11. Grosvenor Investment Mgmt.	10/01/93	PA diversified	equity ownership	373.0
Eastern Retail Holdings	01/07/99	Retail	equity and debt	0.2
Grosvenor Residential Ptrs I	04/26/07	Residential	equity and debt	0.8
12. Hawkeye Partners – Scout Fund		Opportunistic	equity and debt	–
13. Heitman Capital Mgmt.	12/28/87	Diversified	equity ownership	70.0
Heitman America RE Trust	03/29/07	Diversified	equity ownership	37.1
14. LaSalle Investment Mgmt.	10/01/93	Diversified	equity ownership	328.1
15. Lowe Enterprises	10/01/93	Diversified	equity ownership	494.0
16. Lubert–Adler Fund II	10/30/98	Opportunistic	equity and debt	8.7
Lubert–Adler Fund III	11/10/00	Opportunistic	equity and debt	12.6
Lubert–Adler Fund IV	03/31/04	Opportunistic	equity and debt	22.1
Lubert–Adler Fund V	04/10/06	Opportunistic	equity and debt	15.8
17. Miller Global Fund III	01/19/99	Diversified	equity and debt	1.0
18. Oaktree Capital Management				
TCW Fund VI	04/20/94	Opportunistic	equity and debt	0.6
OCM Opportunity Fund A	05/09/96	Opportunistic	equity and debt	3.1
OCM Opportunity Fund II	12/15/98	Opportunistic	equity and debt	5.2
OCM Opportunity Fund III	03/05/03	Opportunistic	equity and debt	23.4
19. Oxford GSA Fund	11/06/06	Development	equity and debt	3.3

Real Estate Investments Summary *(continued)*

Real Estate Investment Advisor	SERS Initial Funding	Property Type	Transaction Structure	*Market Value as of 9/30/07 (\$ millions)
20. Prudential – Senior Housing I	12/22/98	Senior housing	equity and debt	\$0.4
Senior Housing II	06/12/01	Senior housing	equity and debt	16.7
Senior Housing III	01/12/06	Senior housing	equity and debt	22.6
Mexico Retail Fund	09/19/06	Int'l Opportunistic	equity and debt	7.4
21. Rockpoint Group – Fund I	09/28/04	Opportunistic	equity and debt	10.3
Rockpoint Fund II	09/27/05	Opportunistic	equity and debt	28.5
Rockpoint Fund III	12/21/07	Opportunistic	equity and debt	–
Rockpoint Finance Fund	03/13/07	Opportunistic	debt	1.0
22. Sentinel Corp.	07/31/84	Diversified	equity ownership	81.8
23. Starwood: SOF IV	03/24/97	Opportunistic	equity and debt	3.3
SOF V	05/14/99	Opportunistic	equity and debt	2.8
SOF VI	03/27/03	Opportunistic	equity and debt	52.7
SOF VII	01/13/06	Opportunistic	equity and debt	26.1
24. UBS: PMSA	09/30/83	Diversified	equity mortgages	77.0
RESA	06/3//84	Diversified	equity ownership	93.0
Multifamily Trust	08/02/99	Residential	equity ownership	0.4
25. Urdang Investment Mgmt.	05/15/02	REITs	public securities	69.6
26. Westbrook Partners: WREF II	06/16/97	Opportunistic	equity and debt	4.7
WREF III	09/01/98	Opportunistic	equity and debt	4.1
WREF IV	05/01/01	Opportunistic	equity and debt	5.6
WREF V	02/16/05	Opportunistic	equity and debt	6.4
WREF VI	05/10/06	Opportunistic	equity and debt	31.3
WREF VII	12/03/07	Opportunistic	equity and debt	–
27. Goldman Sachs: Whitehall V&VI	04/20/94	Opportunistic	equity and debt	5.0
Whitehall V–S & VI–S	12/11/95	Opportunistic	equity and debt	0.2
Whitehall VII & VIII	05/28/96	Opportunistic	equity and debt	1.0
September 30, 2007 Total				\$2,946.5
4th Quarter Net Cash Flow Adjustments				+ 107.9
December 31, 2007 Total				\$3,054.4

**Market 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, 2007 - (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 eight 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 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 S&P 500 Index. SERS' 2008 Investment Plan anticipates a long-term allocation range with a midpoint of 14%.

Market Value as of December 31, 2007: The asset class total market value stood at \$5,543.3 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 15.6% of the Fund. Sub-asset class market values and fund percentages were as follows:

SERS Alternative Investments

	Unfunded Commitments (\$ mil)	Market Value (\$ mil)	Percent of Total Fund
Venture Capital	\$969.1	\$1,379.3	3.9%
Private Equity	3,160.5	4,164.0	11.7%
Total Alternative Investments	\$4,129.6	\$5,543.3	15.6%

Number of Limited Partnerships: As of December 31, 2007, SERS had commitments to 322 active Alternative Investments limited partnerships, 114 to Venture Capital partnerships and 208 to Private Equity partnerships. (This does not include 29 partnerships -- 18 Venture Capital and eight Private Equity – that are now “inactive” and three investments pending contract approval.)

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, and 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 September 30, 2007, based on market value, the program's exposure was as follows:

By Sub Sector:

U.S. Private Equity	44.6%
U.S. Venture Capital	22.0%
International	17.1%
Distressed/Opportunistic	8.3%
Pennsylvania	4.6%
Other	3.4%

By Style:

LBO	42.9%
Expansion Stage	15.8%
Early Stage	10.3%
Start-Up	8.2%
Acquisition/Platform	5.4%
Senior Debt LBO	5.4%
Other	12.0%

By Geography:

U.S. Northeast	18.2%
U.S. West Coast	12.9%
U.S. Southwest/Rockies	10.5%
U.S. Midwest/Plains	8.5%
U.S. Mid-Atlantic	7.7%
U.S. Southeast	7.6%
U.S. Pacific Northwest	1.7%
United Kingdom	7.5%
Germany	3.4%
France	2.7%
Netherlands	2.3%
Denmark	2.0%
Rest of World	15.0%

By Industry:

Communications	23.5%
Consumer	21.8%
Healthcare	15.9%
Financial	10.1%
Manufacturing	7.2%
Software	7.2%
Electronics	4.0%
Energy	3.2%
Other	7.1%

Venture Capital Committed, Drawn and Distributed

as of September 30, 2007 - (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 original capital and profits returned to SERS.

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. APAX Excelsior VI	Later Stage	7/3/2000	\$35,000,000	\$33,211,781	\$23,791,256
P/A Fund I	Later Stage	6/30/1993	30,000,000	29,999,999	66,195,539
P/A Fund III	Later Stage	3/31/1997	100,000,000	100,000,000	151,420,448
2. APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,000,000	257,566
APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	19,200,000	1,707,066
3. 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	28,500,000	4,761,905
4. Advanced Technology Ventures VI	Early Stage	3/9/2000	10,000,000	10,000,000	240,896
Advanced Technology Ventures VII LP	Early Stage	7/11/2001	27,000,000	23,084,700	6,580,846
5. Alloy Annex I, L.P.	Seed/Early Stage	10/31/2003	5,000,000	4,000,000	0
Alloy Ventures 2000 L.P.	Early Stage	5/19/2000	20,000,000	20,000,000	2,074,620
Alloy Ventures 2002 LP	Early Stage	7/22/2002	25,000,000	18,250,000	5,604,706
Alloy Ventures 2005, L.P.	Seed/Early Stage	8/11/2005	25,000,000	10,500,000	0
6. Artiman Ventures II, L.P.	Seed/Early Stage	10/27/2006	25,000,000	3,250,000	0
7. Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,202,503	6,135,410
Atlas Venture Fund V L.P.	Early Stage	2/7/2000	37,200,000	36,970,720	10,090,936
Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	23,405,324	3,122,782
8. Austin Ventures VIII	Early Stage	7/26/2001	20,932,140	20,590,058	5,749,677
Austin Ventures IX	Early Stage	1/9/2006	15,000,000	4,857,143	881,830
9. Battery Ventures VIII, L.P.	Diversified	8/13/2007	25,000,000	2,411,950	0
10. Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	5,324,524	0
11. Care Capital Investments III, L.P.	Later Stage	2/8/2006	25,000,000	3,000,000	0
12. Charles River Partnership XI LP	Early Stage	2/15/2001	11,032,259	10,011,776	2,590,731
13. Clearstone Venture Partners III-A, L.P.	Early/Late Stage	12/22/2004	25,000,000	12,250,000	0
14. Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	19,949,041	7,591,801
Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,242,000	6,955,131
Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	1,613,690
15. Devon Park Bioventures, L.P.	Early/Late Stage	12/15/2006	10,842,697	503,565	26
16. Draper Fisher Jurvetson VI	Early Stage	8/13/1999	8,000,000	7,760,000	94,810
Draper Fisher Jurvetson Fund VII LP	Early Stage	9/22/2000	20,000,000	16,910,000	3,178,088
17. Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	21,453,575	2,195,783
Draper Triangle Ventures II, L.P.	Early Stage	10/13/2004	12,000,000	4,646,840	71,158
18. Edison Venture Fund III	Later Stage	3/31/1994	25,000,000	25,000,000	45,769,784
19. Fairview Capital	Fund of Funds	9/30/1994	10,000,000	10,000,000	4,434,328
Fairview II	Fund of Funds	3/31/1998	10,000,000	9,600,000	2,602,239
20. Frazier Healthcare III	Early Stage	3/31/1999	30,000,000	29,475,000	9,927,334
Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	25,722,010	8,265,506
Frazier Healthcare V	Early/Late Stage	5/10/2005	30,000,000	11,220,000	2,742,043
21. 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	23,671,934

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

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
22. Halpern Denny Fund II	Later Stage	3/31/1998	\$25,000,000	\$25,116,871	\$4,513,556
Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	23,631,740	16,626,928
23. HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	176,586,055	61,504,217
HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	44,250,000	1,113,750
HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	7,000,000	0
24. 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	51,990,128
Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	34,125,000	3,462,611
Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	26,250,000	0
Healthcare Ventures VIII, L.P.	Early Stage	8/22/2005	30,000,000	6,450,000	2,568,786
25. Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	22,687,500	14,164,592
Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	7,262,500	0
Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	3,263,199	0
26. IP II L.P.	Early Stage	12/17/2001	8,600,000	8,240,074	1,006,296
IP III L.P.	Seed/Early Stage	11/19/2004	10,500,000	6,930,000	0
IP IV L.P.	Seed/Early Stage	9/21/2007	14,000,000	840,000	0
27. InterWest Partners VIII L.P.	Early Stage	8/25/2000	25,000,000	21,250,000	5,323,829
InterWest Partners IX, L.P.	Early Stage	10/19/2005	20,000,000	7,000,000	1,106,563
28. J.H. Whitney Equity Fund III LP	Later Stage	3/31/1998	20,000,000	20,171,316	39,740,353
J.H. Whitney IV LP	Later Stage	2/1/2000	20,000,000	16,712,208	4,169,263
29. JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	97,559,706	22,861,587
JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	73,526,757	14,388,050
JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	12,855,936	3,580
30. JMI Equity Fund V, L.P.	Early/Late Stage	6/7/2005	24,000,000	18,269,205	0
JMI Equity Fund VI	Early/Late Stage	6/27/2007	40,000,000	3,600,000	0
31. Keystone Venture IV	Later Stage	7/21/1993	15,000,000	15,045,275	11,249,174
Keystone V	Later Stage	3/31/1998	25,000,000	25,117,132	2,082,064
32. Kline Hawkes Pacific LP	Early Stage	8/30/2000	15,000,000	14,839,616	4,828,419
33. Knightsbridge Venture Capital VI, L.P.	Fund of Funds	12/7/2004	20,000,000	6,150,000	0
34. Lightspeed Venture Partners VII, L.P.	Early Stage	2/27/2006	18,000,000	7,364,913	0
35. Meritech Capital Partners II	Later Stage	1/2/2001	26,475,166	20,593,454	12,358,859
Meritech Capital Partners III, L.P.	Later Stage	4/5/2006	35,000,000	12,425,000	0
36. Mid-Atlantic III	Early Stage	6/30/1997	20,008,308	20,111,247	5,025,301
Mid-Atlantic Venture Fund IV L.P.	Early Stage	5/4/2000	30,000,000	27,900,000	217,297
NEPA Venture-II	Early Stage	12/31/1992	7,500,000	7,526,234	34,879,769
37. Morgenthaler Partners VII L.P.	Early Stage	7/26/2001	35,000,000	29,750,000	11,147,420
Morgenthaler Partners VIII, L.P.	Diversified	10/3/2005	35,000,000	10,500,000	866,827
38. New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	198,142,418
New Enterprises Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	97,217,571
New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	3,096,428
New Enterprise Associates X LP	Early Stage	12/11/2000	35,000,000	32,928,000	14,057,500
New Enterprise Associates 11	Early Stage	3/1/2004	25,000,000	20,250,000	5,273,208
New Enterprise Associates 12	Diversified	6/26/2006	35,000,000	9,279,833	280,998
39. NewSpring Ventures II, L.P.	Later Stage	12/5/2006	10,000,000	1,000,000	0
40. Oak Investment Partners XI	Later Stage	7/21/2004	35,000,000	30,460,294	5,500,388
Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	10,934,910	0

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

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
41. PA Early Stage Partners III L.P.	Early Stage	4/17/2003	\$10,000,000	\$5,150,000	\$404,667
42. Polaris Venture Partners	Early Stage	6/30/1996	15,000,000	14,595,000	46,501,899
Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	24,859,456
Polaris Venture Partners III L.P.	Early Stage	1/21/2000	50,000,000	48,500,000	13,041,838
Polaris Venture Partners IV L.P.	Early Stage	9/30/2002	50,000,000	42,750,000	3,312,172
Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	6,250,000	0
43. Quaker BioVentures	Early Stage	2/20/2003	20,000,000	14,922,958	3,526,430
Quaker BioVentures II	Middle/Later Stage	4/3/2007	25,000,000	250,000	0
44. Sofinnova Venture Partners VII, L.P.	Early Stage	1/18/2007	20,000,000	2,400,000	0
45. Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	40,500,717
46. Summit Accelerator Fund L.P.	Early Stage	11/15/1999	8,000,000	7,560,000	6,747,995
Summit Partners VC Fund II, L.P.	Diversified	9/22/2006	15,000,000	2,100,000	0
Summit IV	Later Stage	9/30/1995	25,000,000	24,250,000	182,561,331
Summit V	Later Stage	3/31/1998	37,500,000	36,000,000	46,278,130
47. T.Rowe Price Stock Distribution Account	Stock Distribution	1/3/2005	0	223,842,864	168,740,567
48. TA/Advent VIII	Later Stage	6/30/1997	30,000,000	29,541,093	58,866,034
49. Three Arch Capital LP	Early Stage	12/20/2000	20,000,000	17,500,000	3,145,142
Three Arch Partners IV, L.P.	Early/Late Stage	6/4/2004	20,000,000	8,050,000	465,004
50. TL Ventures III LP	Early Stage	3/31/1997	15,000,000	15,062,614	18,874,357
TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	20,103,600
TL Ventures V	Early Stage	10/18/2000	40,000,000	30,848,219	5,978,047
51. US Venture Partners VII LP	Early Stage	2/18/2000	13,750,000	13,750,000	1,875,020
US Venture Partners VIII LP	Early Stage	6/1/2001	26,250,000	23,865,000	5,722,728
52. Weathergag Venture Capital, L.P.	Fund of Funds	6/26/2007	25,000,000	937,500	0
53. Weston Presidio III	Later Stage	12/31/1998	35,000,000	31,237,086	20,994,821
Weston Presidio IV	Later Stage	6/21/2000	35,000,000	33,197,500	13,404,271
Weston Presidio V	Later Stage	12/8/2005	50,000,000	24,850,000	0
54. Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,225,974	1,907,983
Total Active VC Commitments			\$3,326,037,091	\$2,582,873,655	\$1,782,588,460

**Not Funded as of 9/30/07
Commitments as of 12/31/07
Cash flows as of 9/30/07*

Inactive Venture Capital Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	\$199,700,000	\$189,657,125	\$395,994,167

Private Equity Committed, Drawn and Distributed

as of September 31, 2007 - (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 original capital and profits returned to SERS.

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1.	ABRY Broadcast Partners III	Buyouts	3/31/1997	\$25,000,000	\$27,172,386	\$22,020,945
	ABRY Broadcast Partners IV LP	Buyouts	3/30/2001	35,000,000	27,906,686	29,228,929
	ABRY Partners V, L.P.	Buyouts	7/29/2005	45,000,000	29,533,448	435,031
	ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	32,294,981	29,026,236
	ABRY Senior Equity II, L.P.	Secondaries	7/27/2006	30,000,000	8,839,644	77,544
2.	ABS Capital Partners III L.P.	Buyouts	3/31/1999	35,000,000	29,428,915	16,906,256
	ABS Capital Partners IV L.P.	Buyouts	10/13/2000	35,000,000	31,035,121	30,917,069
	ABS Capital Partners V, L.P.	Buyouts	11/14/2005	20,000,000	10,836,118	48,924
3.	AG Capital Recovery Partners II LP	Distressed Debt	10/1/2001	17,600,000	17,695,470	26,940,586
	AG Capital Recovery Partners III LP	Distressed Debt	4/1/2002	20,000,000	16,000,000	25,124,698
	AG Capital Recovery Partners IV LP	Distressed Debt	2/4/2003	50,000,000	35,415,216	52,457,171
	AG Capital Recovery Partners V, L.P.	Distressed Debt	4/17/2006	20,000,000	8,300,000	0
4.	APAX Europe IV L.P.	Buyouts	3/31/1999	35,000,000	29,445,670	31,281,236
	APAX Europe V LP	Buyouts	4/27/2001	70,000,000	67,680,079	114,167,411
	APAX Europe VI, L.P.	Buyouts	5/19/2005	76,349,190	61,590,370	24,103,804
	APAX Europe VII, L.P.	Buyouts	6/27/2007	132,900,000	25,435,450	0
	APAX Germany II	Middle/Later Stage	6/30/1997	8,737,262	8,455,477	16,916,389
	APAX UK Ventures VI	Middle/Later Stage	12/31/1997	6,558,000	6,918,899	12,587,930
5.	AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	17,387,109	19,117,760
	AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	9,343,346	9,818,583
	AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	7,244,688	432,702
6.	Abingworth Bioventures IV, L.P.	Seed/Early Stage	9/1/2003	20,000,000	13,440,000	1,492,347
	Abingworth Bioventures V, L.P.	Early Stage	1/23/2007	33,775,000	4,148,893	541
7.	Accel Europe L.P.	Early Stage	7/2/2001	15,000,000	9,625,000	0
8.	Advent Latin American PE Fund IV, L.P.	Buyouts	8/2/2007	30,000,000	3,300,000	0
9.	Alpha Private Equity Fund 4 L.P.	Mid Market Buyouts	5/15/2002	26,580,000	34,973,099	55,446,521
	Alpha Private Equity Fund 5, L.P.	Mid Market Buyouts	4/1/2006	72,233,400	28,286,650	0
10.	Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,024,589	88,395,747
	Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	46,936,735	71,119,071
	Apollo Investment Fund VI, L.P.	Buyouts	7/19/2006	40,000,000	14,384,059	394,070
11.	Asia Alternatives Capital Partners, L.P.	Fund of Funds	6/26/2007	50,000,000	5,469,656	12,963
12.	Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,257,100	6,017,004
13.	Audax Private Equity Fund L.P.	Mid Market Buyouts	5/25/2000	35,000,000	35,881,508	46,333,995
	Audax Private Equity Fund II, L.P.	Mid Market Buyouts	6/17/2005	25,000,000	17,097,191	2,660,969
	Audax Private Equity Fund III, L.P.	Mid Market Buyouts	*	40,000,000	0	0
14.	Avenue Asia Special Situations Fund IV, LP	Distressed Debt	6/30/2006	50,000,000	13,219,617	8,850
	Avenue Special Situations Fund III, L.P.	Distressed Debt	8/25/2003	50,000,000	42,428,808	58,684,846
	Avenue Special Situations Fund IV, L.P.	Distressed Debt	3/27/2006	50,000,000	50,000,000	0
	Avenue Special Situations Fund V, L.P.	Distressed Debt	6/4/2007	70,000,000	13,347,117	160,278

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

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
15. B III Capital Partners	Distressed Debt	9/30/1997	\$35,000,000	\$34,503,390	\$49,303,904
16. Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	24,562,500	33,016,907
Bain Capital Fund VIII-E, L.P.	Buyouts	12/15/2004	13,405,000	10,611,493	0
Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	15,000,000	10,612,500	0
Bain Capital Fund IX, L.P.	Buyouts	4/10/2006	75,000,000	53,250,000	4,937,278
Bain Capital X Coinvestment Fund	Buyouts	*	10,000,000	0	0
Bain Capital Fund X, L.P.	Buyouts	*	90,000,000	0	0
Bain Capital Asia Fund, L.P.	Distressed Debt	*	12,000,000	0	0
17. Baring Vostok Private Equity Fund IV, L.P.	Buyouts	5/7/2007	30,000,000	150,137	0
18. BC European Capital VII LP	Buyouts	7/28/2000	37,345,000	37,754,746	44,326,163
BC European Capital VII Top Up	Buyouts	7/2/2001	12,090,549	12,278,596	10,210,906
BC European Capital VIII, L.P.	Buyouts	12/13/2005	97,635,000	18,185,645	0
19. Berkshire Fund VI LP	Mid Market Buyouts	7/11/2002	20,000,000	16,738,760	10,962,024
Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	4,844,675	0
20. Blackstone Communications Partners I LP	Buyouts	8/29/2000	25,000,000	26,329,274	21,971,315
Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,827,676	92,873,019
Blackstone Capital III	Buyouts	12/31/1997	75,000,000	74,342,317	115,013,533
Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	74,050,712	95,033,382
Blackstone Capital Partners V, L.P.	Buyouts	5/30/2006	150,000,000	81,681,925	6,684,825
21. Brait IV, L.P.	Buyouts	12/11/2006	25,000,000	7,126,561	0
22. Brynwood Partners V, L.P.	Mid Market Buyouts	7/31/2005	10,000,000	8,719,160	0
23. Centerbridge Capital Partners I, L.P.	Distressed Debt	2/27/2007	50,000,000	5,946,145	0
24. Cerberus Institutional Partners L.P.	Distressed Debt	3/5/1999	35,000,000	35,000,000	75,275,135
Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	65,460,759
Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	35,000,000	22,321,354	1,697,911
Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	33,375,000	0
25. Charterhouse Equity Partners II	Buyouts	3/31/1994	40,000,000	43,849,172	100,462,834
Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	65,848,588
26. Charterhouse Capital Partners VII	Buyouts	1/17/2003	52,120,000	50,895,877	60,278,034
Charterhouse Capital Partners VIII	Buyouts	4/19/2006	74,400,000	37,586,944	0
27. Chequers Capital XV, L.P.	Buyouts	7/5/2006	31,434,000	9,709,417	0
28. CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	20,000,000	8,000,000	0
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	35,905,272	55,410,949
30. Code Hennessy & Simmons	Buyouts	9/28/1989	10,000,000	9,650,000	29,205,907
Code Hennessy & Simmons II	Buyouts	6/30/1994	20,000,000	20,000,000	69,111,676
Code Hennessy & Simmons III	Buyouts	9/30/1997	40,000,000	38,724,000	54,918,648
Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	97,170,000	132,172,889
Code Hennessy & Simmons Equity V, L.P.	Mid Market Buyouts	11/10/2005	50,000,000	24,293,109	1,878,892
31. Cognetas Fund II, L.P.	Buyouts	11/2/2005	52,072,000	22,504,180	2,566,249
32. CVI Global Value Fund, L.P.	Distressed Debt	2/23/2007	50,000,000	27,651,667	0
33. DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	82,044,731	97,465,686
DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	94,969,463	113,269,545
34. Elevation Partners, L.P.	Private Equity	11/10/2005	35,000,000	13,696,601	114,075
35. Energy Spectrum Partners IV, L.P.	Mid Market Buyouts	12/15/2004	50,000,000	43,046,546	14,567,985
Energy Spectrum Partners V, L.P.	Mid Market Buyouts	7/9/2007	30,000,000	672,594	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
36.	Eureka II, L.P.	Mid Market Buyouts	1/30/2006	\$20,000,000	\$4,422,461	\$291,601
37.	Excelsior Capital Asia Partners III, L.P.	Middle/Later Stage	8/17/2006	25,000,000	6,179,465	40,602
38.	First Reserve Fund X, L.P.	Buyouts	10/28/2004	30,000,000	28,010,045	26,782,907
	First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	7,350,005	0
39.	Francisco Partners LP	Buyouts	7/27/2000	50,000,000	46,875,000	29,195,343
	Francisco Partners II, L.P.	Buyouts	7/10/2006	30,000,000	13,050,000	0
40.	Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	54,738,396
41.	Great Hill Equity Partners	Buyouts	4/12/1999	30,000,000	30,000,000	28,221,438
	Great Hill Equity Partners II LP	Buyouts	3/28/2001	35,000,000	35,063,336	44,268,235
	Great Hill Equity Partners III, L.P.	Mid Market Buyouts	3/7/2006	35,000,000	16,791,250	0
42.	Gryphon Partners II LP	Buyouts	11/3/1999	35,000,000	35,881,393	30,772,309
	Gryphon Partners III, LP	Buyouts	9/8/2004	30,000,000	17,294,291	4,312,655
43.	GTC&R V	Buyouts	3/31/1997	11,400,000	11,400,000	19,475,171
	GTC&R VI	Buyouts	9/30/1998	50,000,000	50,854,013	41,819,443
	GTC&R VII	Buyouts	3/15/2000	55,000,000	48,046,546	86,731,469
	GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	57,067,322
	GTCR IX, L.P.	Early Stage	12/1/2006	50,000,000	6,666,013	3,161,153
44.	Hancock IPEP II (Harbourvest II)	Fund of Funds	6/30/1997	25,000,000	24,357,775	30,812,435
	HarbourVest IPEP III	Fund of Funds	6/30/1998	40,000,000	38,400,000	31,668,683
	Harbourvest IPEP IV	Fund of Funds	4/9/2001	40,000,000	32,400,000	20,583,264
	HIPEP V-Asia Pacific & RoW	Buyouts	5/9/2006	30,000,000	7,395,316	0
45.	Hellman Friedman III	Buyouts	6/30/1995	50,000,000	40,308,123	91,811,279
	Hellman Friedman IV	Buyouts	2/14/2000	75,000,000	66,540,777	140,778,980
	Hellman Friedman V	Buyouts	12/20/2004	80,000,000	68,267,655	11,558,233
	Hellman & Friedman Capital Partners VI	Buyouts	6/5/2007	125,000,000	30,038,253	0
46.	Insight Venture Partners VI, L.P.	Buyouts	8/21/2007	30,000,000	960,000	0
47.	InterMedia Partners VII, LP	Diversified	1/5/2007	15,000,000	7,941,763	142,200
48.	Invemed Catalyst Fund L.P.	Mid Market Buyouts	10/19/1999	16,754,888	13,376,510	4,929,794
49.	J.H. Whitney V LP	Later Stage	3/29/2001	20,000,000	21,858,315	32,598,724
	J.H. Whitney VI, L.P.	Buyouts	1/5/2006	50,000,000	25,378,548	8,221,368
50.	JP Morgan US Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	37,967,707	12,831,889
51.	J.W. Childs Equity Partners III L.P.	Mid Market Buyouts	8/20/2002	40,000,000	37,432,049	28,222,308
52.	Kelso Investment Associates V	Buyouts	12/31/1993	40,000,000	54,411,479	152,923,297
	Kelso VI	Buyouts	9/30/1998	75,000,000	69,057,922	80,127,191
	Kelso VII	Buyouts	10/18/2004	40,000,000	30,745,767	9,826,377
	Kelso VIII	Buyouts	*	150,000,000	0	0
53.	Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,880,353	18,474,353
	Landmark Equity Partners V	Secondaries	12/31/1995	19,624,113	19,434,947	23,132,550
54.	Leeds Equity Partners IV, L.P.	Mid Market Buyouts	11/12/2004	20,000,000	15,154,807	0
55.	Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	44,204,264
	Lexington Capital Partners III L.P.	Secondaries	1/26/1999	35,000,000	34,169,949	35,603,195
	Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	69,570,753	68,851,975
	Lexington Capital Partners VI, L.P.	Secondaries	10/21/2005	50,000,000	17,798,899	3,072,554
56.	Lime Rock Partners III, L.P.	Later Stage	3/7/2005	15,000,000	10,301,107	2,239,042
	Lime Rock Partners IV, L.P.	Later Stage	11/16/2006	25,000,000	5,190,438	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
	Lime Rock Resources, L.P.	Diversified	12/28/2005	\$20,000,000	\$6,014,486	\$120,778
57.	LLR Equity Partners LP	Mid Market Buyouts	2/4/2000	25,000,000	24,341,235	38,531,299
	LLR Equity Partners II, L.P.	Mid Market Buyouts	1/29/2004	25,000,000	15,237,377	4,513,889
58.	Madison Dearborn Capital Partners	Buyouts	3/31/1993	15,000,000	14,538,849	44,936,487
	Madison Dearborn Capital Partners II	Buyouts	3/31/1997	40,000,000	40,152,017	90,363,219
	Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	76,195,099	96,508,584
	Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	83,492,915	38,743,729
	Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	47,839,214	0
59.	MatlinPatterson GOP LP	Distressed Debt	5/31/2001	35,000,000	34,251,484	53,723,890
	Matlin Patterson GOP II	Distressed Debt	6/30/2004	30,000,000	30,949,780	13,201,968
60.	Media/Communication III	Buyouts	6/30/1997	25,000,000	23,750,000	35,057,571
	Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	5,010,893
	Media/Communications Ventures Fund V LP	Buyouts	9/27/2000	35,000,000	33,150,341	14,935,375
61.	Meridian Venture Partners II, L.P.	Buyouts	2/11/2005	10,000,000	10,000,000	823,344
62.	New York Life Capital Partners III, L.P.	Secondaries	6/30/2006	50,000,000	29,977,053	933,658
	New York Life Capital Partners IV, L.P.	Secondaries	*	100,000,000	0	0
63.	Newbridge Asia III LP	Buyouts	2/15/2001	15,000,000	15,123,450	7,070,976
	Newbridge Asia IV LP	Buyouts	9/27/2005	40,000,000	21,000,943	2,721,435
64.	Nordic Capital V L.P.	Buyouts	5/7/2004	40,000,000	43,871,777	19,921,452
	Nordic Capital VI, L.P.	Buyouts	7/25/2006	54,441,000	39,492,719	1,128,843
	Nordic Capital VII, L.P.	Buyouts	*	100,237,900	0	0
65.	Oakhill Capital Partners	Buyouts	5/17/1999	50,000,000	53,092,280	64,592,965
66.	Oaktree Capital Management L.P.	Diversified	5/28/2004	40,000,000	40,577,048	22,662,091
	OCM Opportunities Fund	Distressed Debt	1/31/1996	24,000,000	24,000,000	38,706,715
	OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	59,655,678
	OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	87,331,393
	OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	68,250,000	113,156,990
	OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	43,836
	OCM Opportunities Fund VI, L.P.	Distressed Debt	9/28/2005	40,000,000	40,000,000	0
	OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	10,000,000	0
	OCM Opportunities Fund VIIb	Distressed Debt	*	40,000,000	0	0
	OCM Principal Opportunities	Distressed Debt	12/31/1996	25,000,000	25,000,000	30,026,606
	OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	34,191,421
	OCM Principal Opportunities Fund IV, L.P.	Distressed Debt	1/24/2007	20,000,000	7,000,000	38,751
	OCM/GFI Power Opportunities Fund II, L.P.	Buyouts	5/9/2005	25,000,000	2,133,174	29,205
67.	Palamon European Equity L.P.	Buyouts	7/23/1999	31,499,291	33,308,696	26,639,661
	Palamon European Equity II, L.P.	Diversified	10/25/2005	40,114,200	14,175,684	0
68.	Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	18,981,604	13,713,886
69.	Permira European Fund	Buyouts	9/30/1997	33,789,023	32,159,947	83,708,331
	Permira European Fund II	Buyouts	6/7/2000	47,979,751	43,846,362	78,101,935
	Permira European Fund III, L.P.	Buyouts	1/12/2004	112,640,170	97,612,820	77,764,408
	Permira IV, L.P.	Buyouts	12/14/2006	126,870,000	34,451,930	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
70.	Pitango Venture Capital Fund IV, LP	Diversified	7/19/2004	20,000,000	12,001,534	199,335
	Pitango Venture Capital Fund V,L.P.	Seed/Early Stage	8/22/2007	30,000,000	600,000	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
71.	PNC Equity Partners II	Mid Market Buyouts	8/30/2007	\$15,000,000	\$2,331,340	\$0
72.	Providence Equity Partners IV LP	Mid Market Buyouts	11/27/2000	25,000,000	27,336,438	32,929,207
	Providence Equity Partners V LP	Mid Market Buyouts	4/4/2005	50,000,000	42,439,406	342,918
	Providence Equity Partners VI, L.P.	Buyouts	3/16/2007	50,000,000	12,451,654	0
73.	Sankaty Credit Opportunities III, L.P.	Distressed Debt	3/8/2007	50,000,000	30,000,000	0
74.	S.B. Energy Partners I, L.P.	Buyouts	7/27/2007	25,000,000	1,090,867	0
75.	SCP Private Equity Partners II L.P.	Buyouts	6/15/2000	25,000,000	23,831,313	4,864,740
76.	Segulah IV, L.P.	Mid Market Buyouts	*	15,688,890	0	0
77.	ShoreView Capital Partners	Buyouts	6/16/2003	38,000,000	27,311,618	32,517,614
	ShoreView Capital Partners II, L.P.	Buyouts	*	50,000,000	0	0
78.	Siguler Guff BRIC Opportunities Fund, L.P.	Fund of Funds	5/8/2006	10,000,000	3,858,299	335,077
79.	Sterling Capital Partners LP	Buyouts	10/31/2002	15,000,000	13,380,637	4,398,878
	Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	19,409,937	1,726,778
	Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	3,968,473	0
80.	Summit Ventures VI LP	Later Stage	3/23/2001	62,000,000	62,087,469	41,963,606
	Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	97,134,500	29,626,022	1,384,412
81.	TA/Advent IX	Later Stage	9/20/2000	45,000,000	43,650,000	44,648,248
	TA/Advent X	Middle/Later Stage	4/25/2006	70,000,000	34,650,000	0
82.	Thomas H. Lee Equity Fund IV LP	Buyouts	6/30/1998	70,000,000	63,950,100	52,462,423
	Thomas H Lee Equity Fund V LP	Buyouts	7/3/2001	100,000,000	101,587,292	83,430,869
	Thomas H. Lee Equity Fund VI, L.P.	Mid Market Buyouts	11/14/2006	50,000,000	14,438,840	252,171
83.	TPG Partners II	Buyouts	6/30/1997	75,000,000	76,286,247	111,455,282
	TPG Partners III	Buyouts	1/13/2000	75,000,000	69,088,279	119,714,435
	TPG Partners IV	Buyouts	12/29/2003	30,000,000	30,941,853	16,398,735
	TPG Partners V	Buyouts	6/27/2006	100,000,000	36,952,999	133,294
	TPG Asia V, L.P.	Buyouts	*	25,000,000	0	0
84.	UMS Partners Fund I, L.P.	Distressed Debt	2/15/2005	5,000,000	5,000,000	164,250
85.	Versa Capital Partners, L.P.	Distressed Debt	10/16/2005	20,000,000	11,011,753	4,567,251
86.	Vestar Capital Partners III	Buyouts	6/30/1997	25,000,000	23,258,343	22,540,868
	Vestar Capital Partners IV L.P.	Mid Market Buyouts	1/25/2000	100,000,000	94,743,119	80,821,638
	Vestar Capital Partners V, L.P.	Mid Market Buyouts	1/25/2006	50,000,000	21,430,926	2,443,654
87.	W Capital Partners II, L.P.	Secondaries	8/8/2007	40,000,000	4,937,824	0
Total Active PE Commitments				\$9,027,394,856	\$5,949,466,094	\$5,452,828,575

*Not funded as of 9/30/07
 Commitments as of 12/31/07
 Cash flows as of 9/30/07

Inactive Private Equity Funds

Limited Partnership	Committed	Drawn	Distributions
Total Inactive Private Equity	\$123,830,323	\$127,105,590	\$192,520,148

Inflation Protection Investments Summary

as of December 31, 2007 - (unaudited)

Inflation Protection is one of eight 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. SERS contracts with external investment advisors to manage the portfolios.

Investment Objective: Inflation Protection investments are employed by the Fund to provide diversification within the total portfolio and to act as a hedge against inflation. The asset class is composed of a combination of 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 Treasury Inflation Protection Securities (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 rising inflationary periods, 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 Customized Inflation Protection Benchmark.

At the March 14, 2007 Board meeting, the Board approved a proposal to reallocate a portion of the passively-managed commodity assets to actively-managed commodity strategies. In conjunction with that proposal, the Board approved the addition of an active multi-manager commodity fund to the asset class. The allocation to the diversified inflation protection portfolio was also increased modestly. The Inflation Protection program structure as of December 31, 2007 included both indexed and actively-managed commodity portfolios, TIPS, and the diversified inflation protection portfolio. The passive commodity and TIPS portfolio had a long term target of 2.0% of Fund assets, the active multi-manager commodity portfolio had a long-term target of 2.5% of Fund assets, and the active diversified inflation protection portfolio had a long term target of 2.5% of Fund assets.

Market Exposure as of December 31, 2007: Inflation protection strategies had a \$2,624.4 million market exposure, 7.4% of the total Fund's \$35,542.2 million market value on December 31, 2007.

Number of Investment Advisors: SERS had contracts with three external investment advisors to manage the Inflation Protection portfolios.

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

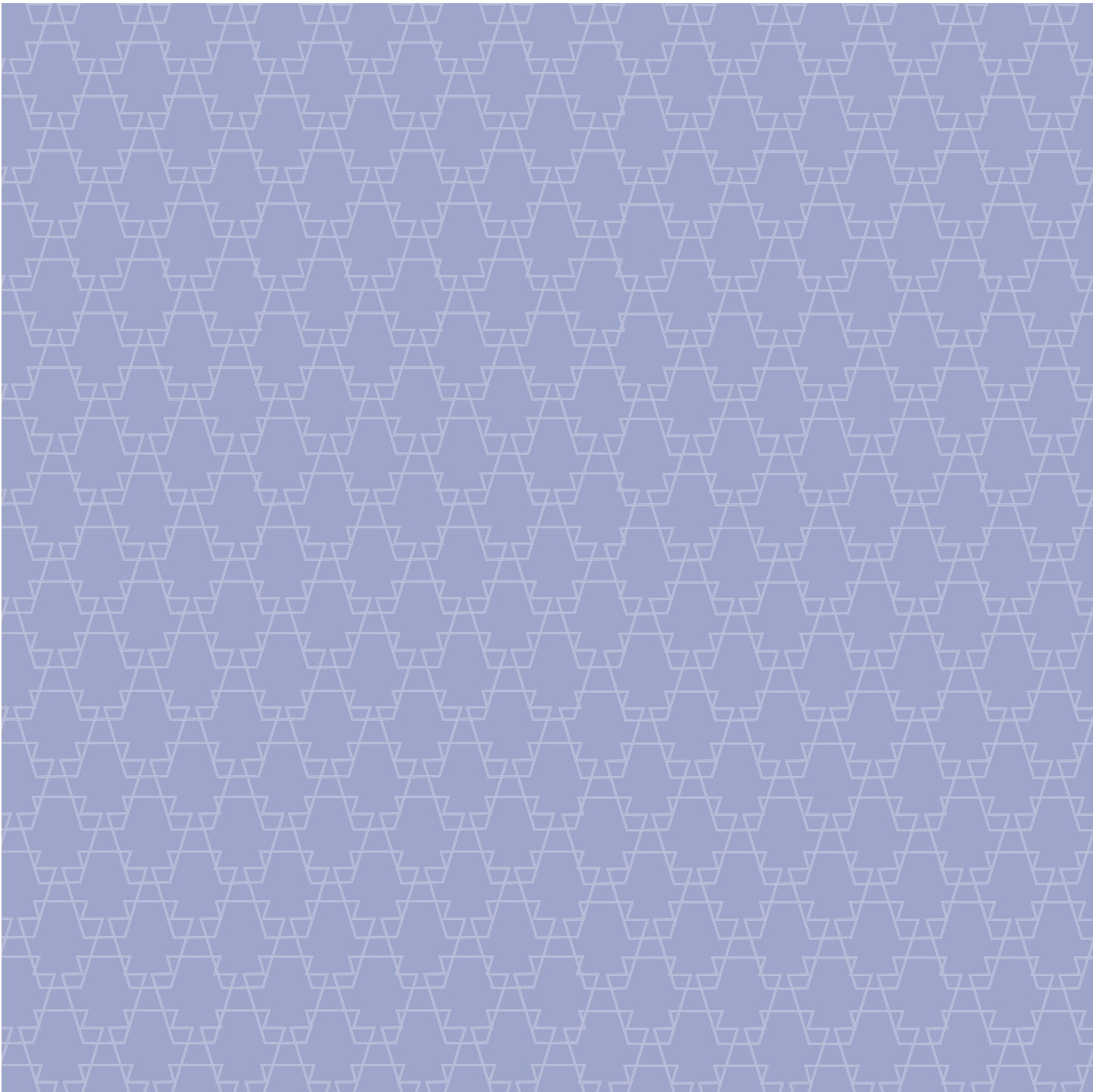
Types of Investment Portfolios: As of December 31, 2007, 27% of SERS' Inflation Protection allocation was in a passive commodity portfolio that achieves the commodity index return by employing swap agreements. The underlying cash for the swaps was invested in intermediate-duration TIPS that generate higher incremental return above typical cash instruments. Another 38% 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 35% was in the multi-manager commodity product, which employs seven underlying commodities managers across the various commodity sectors (energy, precious metals, industrial metals and agriculture).

Inflation Protection Investments Summary *(continued)*

SERS Inflation Protection Investments

		Market Exposure* As of 12/31/07 (\$ Millions)	
Inflation Protection Investment Advisor		Investment Style	
1.	NISA Investment Advisors	Indexed commodities and TIPS	\$705.7
2.	Wellington Management Company	Diversified inflation protection portfolio	996.4
3.	Blackstone Alternative Asset Management	Commodity fund of funds	922.3
Total			\$2,624.4

** Numbers may not add due to rounding.*



Pennsylvania Investments Summary

as of December 31, 2007 - (unaudited)

The State Employees' Retirement System's 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 25, 2007 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 rate of 4%. These reduced employer contributions below the actuarial normal cost projections have saved the taxpayers well over \$2 billion over the past ten years. The reduction of such contributions may then be used by the legislature and Administration 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, 2007: SERS' assets had an unaudited market value in Pennsylvania investments of approximately \$1,449.2 million on December 31, 2007 (4.1% of SERS total fund).

SERS Pennsylvania Investments By Asset Class (\$ Millions)

Asset Class	Total PA Market Value
Stocks	\$519.4
Fixed Income	37.4
Real Estate	359.5
Venture Capital	95.9
Private Equity	437.0
Total	\$1,449.2

SERS investment portfolios have historically held investments in Pennsylvania firms, as some large national firms are headquartered in the Pittsburgh, Philadelphia and Harrisburg areas, including The Hershey Company, Cigna Corp., Rohm and Haas Co., and H. J. Heinz Co. 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 327 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 the year-to-date ending December 31, 2007.

Pennsylvania Investments Summary *(continued)*

Top-Performing Pennsylvania Stocks

Company	Location	Return for 2007
SunCom Wireless Holdings, Inc. SunCom Wireless Holdings, Inc. provides digital wireless communications services in the Southeastern United States and in Puerto Rico and the US Virgin Islands.	Berwyn	281.1%
Calgon Carbon Corporation Calgon Carbon Corporation manufactures and markets products and services employed for separation, concentration, and purification of liquids and gases. The Company serves customers around the world in a variety of areas, including drinking water and wastewater treatment, environmental remediation, industrial process applications, chemical manufacturing, refining, and air purification.	Pittsburgh	156.3%
CONSOL Energy Inc. CONSOL Energy Inc. produces high-BTU bituminous coal, and also coalbed methane gas. The Company markets coal primarily to the electric power generation industry, and secondarily to other consumers of coal in the United States. The majority of CONSOL's mines employ longwall mining systems, which are highly mechanized, capital intensive operations with a low variable cost structure.	Pittsburgh	124.1%
Auxilium Pharmaceuticals Inc. Auxilium Pharmaceuticals Inc. develops and commercializes pharmaceutical products that target urologic and sexual health disorders.	Malvern	104.2%
L.B. Foster Company L.B. Foster Company manufactures, fabricates, and distributes rail and trackwork piling, highway products, earth wall systems, and tubular products. The Company supplies its products to railroads, and to the mining and construction industries. L.B. Foster also sells and rents steel piling and H-bearing pile for foundation and earth retention requirements.	Pittsburgh	99.7%
Central European Distribution Corporation Central European Distribution Corporation imports beer, wine, and spirits, and distributes domestic vodka on a nationwide basis in Poland. The Company operates regional distribution centers in major urban areas throughout Poland.	Bala Cynwyd	95.6%
ANSYS, Inc. ANSYS, Inc. develops, markets, and supports software solutions for design analysis and optimization. The Company's software accelerates product time to market, reduces production costs, improves engineering processes, and optimizes product quality and safety for a variety of manufactured products. ANSYS's product family features open, flexible architecture for easy integration.	Canonsburg	90.7%
Michael Baker Corporation Michael Baker Corporation provides engineering, construction, and operations and technical services to industrial and governmental customers in the United States and internationally. The Company's business units focus on the building, civil, energy, environmental, and transportation markets.	Moon Township	81.5%
eResearchTechnology, Inc. eResearchTechnology, Inc. is a business-to-business provider of integrated software applications and technology consulting services. The Company serves the pharmaceutical, biotechnology, and medical device industries. eResearch offers Internet and other solutions designed to streamline the clinical trials process by enabling its customers to automate many parts of a clinical trial.	Philadelphia	75.6%
Atlas America, Inc. Atlas America, Inc. is an independent energy company that develops, produces, and transports natural gas and oil in the Appalachian Basin of the United States. The Company's principal operations include well drilling, as well as gas and oil production. Atlas also provides well services and gas transportation.	Moon Township	74.6%

Pennsylvania Investments Summary *(continued)*

Emerald Advisers, Inc. of Lancaster and Mellon Capital Management Corporation of Pittsburgh actively manage portfolios principally derived from SERS' Pennsylvania stock universe. These two portfolios, plus the Pennsylvania stocks held in SERS other stock portfolios, plus SERS pro-rata share of Pennsylvania stocks held in the BGI S&P 500 Alpha Tilts Fund provided a total of \$519.4 million invested in Pennsylvania stocks.

Fixed Income

SERS had approximately \$37.4 million invested as of December 31, 2007, 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 between \$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, 2007 SERS portion of Berwind investments totaled \$5.0 million while the PNC investments had matured and all capital was returned to SERS. Most of Berwind's investments have also matured and capital was distributed back to SERS. An example of SERS' investments through The Pennsylvania Capital Fund as of December 31, 2007, 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.

As of December 31, 2007, the remaining investments in Pennsylvania mortgages through Legg Mason had been sold, and all of the monies returned to SERS. It is estimated that as of December 31, 2007, the various commercial projects financed within the Commonwealth by SERS under the commercial mortgage program have directly employed thousands of Pennsylvania workers during the life of the program. This figure does not take into account those who are employed in the property management and maintenance areas of these projects, nor does it consider the favorable "ripple effect" that such jobs may have on the local economy.

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 (LMRES), with a Pennsylvania focus. The Heitman separate account had a requirement to invest on a best efforts basis 50% of its initial allocation within the Commonwealth while the LMRES account is focused primarily on investing within the state.

As of September 30, 2007, the SERS real estate portfolio contained 67 Pennsylvania properties totaling 13 million square feet ("s.f.") of office, retail, and warehouse space, and 8,510 apartment, hotel and senior housing units. The gross market value of the Pennsylvania real estate portfolio investments totaled \$1,915 million, of which SERS' ownership share was \$359.5 million. The portfolio contains numerous notable Pennsylvania real estate investments:

- **30 N. Third Street** – SERS owns a 100% interest in this major downtown Harrisburg office building, which contains 200,000 s.f. of office space. The building serves as both an investment for SERS and as SERS' headquarters, in addition to providing office space for other businesses with operations in the city.
- **79 North Industrial and Research Park** – This investment, located in Allegheny County, consists of seven industrial buildings with a total of 473,578 s.f. and 23.4 acres of buildable land.

Pennsylvania Investments Summary *(continued)*

- **Koppers Building** – SERS acquired this 356,439 s.f. 34-story landmark office building located in downtown Pittsburgh in May 1997.
- **Park Ridge One and Two** – These two five-story suburban Pittsburgh office buildings, which total 206,279 s.f., were transferred from SERS mortgage portfolio in the first quarter 1999.
- **General Residential Holdings** – Under the oversight of Grosvenor, SERS has invested with a local developer in eight separate land holdings in the Philadelphia area. To date, six of the parcels have been sold.
- **Lehigh Valley Industrial** – In August 1998 SERS began investing in the purchase of prime industrial parcels located in the Lehigh Valley area, with the guidance of Grosvenor and a local operator.
- **Kinzua Management Unit** – In July 1998 SERS invested in 18,602 acres of hardwood timberland located in seven Pennsylvania counties and one New York county, all within the Allegheny region. Subsequently, in the first quarter of 1999 an additional 2,197 acres of Pennsylvania timberland was purchased. The existing SERS timberland manager, Forest Investment Associates, manages these holdings.

Pennsylvania Investments Summary *(continued)*

Real Estate Separate Account Pennsylvania Properties as of September 30, 2007*

	Property	Location	Description	Net Market Value of SERS (\$ millions)	Manager
1.	30 North Third St.	Harrisburg	10-story office building containing 200,000 s.f.	\$22.5	Heitman Capital Management
2.	I-79 North Industrial Park	Allegheny County	7 industrial buildings containing 473,578 s.f. in a self-contained park	22.3	Grosvenor Investment Management
3.	Koppers Building	Pittsburgh	356,439 s.f. office	19.9	Grosvenor Investment Management
4.	General Residential Holdings	Chester County	Residential land development	9.4	Grosvenor Investment Management
5.	Lehigh Valley Industrial	Lehigh Valley	Industrial land development	3.5	Grosvenor Investment Management
6.	Park Ridge One & Two	Pittsburgh	Two office buildings, total s.f. 206,279	11.7	Grosvenor Investment Management
7.	Toll Brothers Realty Trust	Huntington Valley	Private REIT	43.0	Grosvenor Investment Management
8.	Toll Brothers Realty Trust II	Huntington Valley	Private REIT	22.4	Grosvenor Investment Management
9.	1180 Church Road	Lansdale	455,000 s.f. office/warehouse	27.2	Grosvenor Investment Management
10.	Alcoa Bus. Center	Pittsburgh	229,000 s.f. office building	15.7	Grosvenor Investment Management
11.	Dewey Homes Guaranty	Philadelphia	Guaranty to bank for land	7.1	Grosvenor Investment Management
12.	Station Square	Lansdale	348 Multifamily units	15.6	Grosvenor Investment Management
13.	Courtyard by Marriott	Collegeville	130 room hotel	10.0	Grosvenor Investment Management
14.	Heritage of Green Hills	Reading	Development of 619 unit senior housing facility	18.6	Grosvenor Investment Management
15.	Windlestrae Residential	New Hanover	Residential development	5.6	Grosvenor Investment Management
16.	Malvern Courtyard	Malvern	Land for future hotel development	4.1	Grosvenor Investment Management
17.	Kinzua Mgmt Unit	Various PA counties	Timber	87.8	Forest Investment Associates
Total				\$346.4^{1/}	

* Real estate market values and detailed property data lags by one quarter due to the timing of the receipt of private market valuations and information. "Separate Account" denotes assets that are owned by entities controlled by SERS.

^{1/} Net Market Value exclusive of property leverage. Legg Mason also uses portfolio debt which equaled \$38 million at 9/30/07.

Pennsylvania Investments Summary *(continued)*

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 who had a Pennsylvania investment mandate. Over its 23 year life the program has grown to include nationally and internationally based private equity and venture capital managers, and the target allocation to alternative investments has grown to 14%. 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 December 31, 2007, 56 of SERS' active managers held investments impacting the state. SERS' market values of Pennsylvania-based and non-PA based companies impacting the Commonwealth are \$169 million and \$502 million, respectively. This equates to 12.1% of the alternative investment program market value.

As of December 31, 2007, SERS' venture capital and private equity partnerships invested in 100 Pennsylvania companies employing approximately 18,495 employees, and representing a payroll of \$916 million. In addition, partnerships in which SERS participates invested in 146 companies domiciled outside Pennsylvania but employing approximately 25,000 Pennsylvania citizens with payrolls of \$645 million. 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. There are many others factors to be considered. Despite the faults in this survey, a separate 2004 study completed by the National Venture Capital Association ranked the top five states by employment at venture capital backed firms headquartered in state as of 2003. Pennsylvania ranked 4th with 604,000 employees at venture backed firms. California ranked 1st, Texas 2nd, and Massachusetts 3rd.

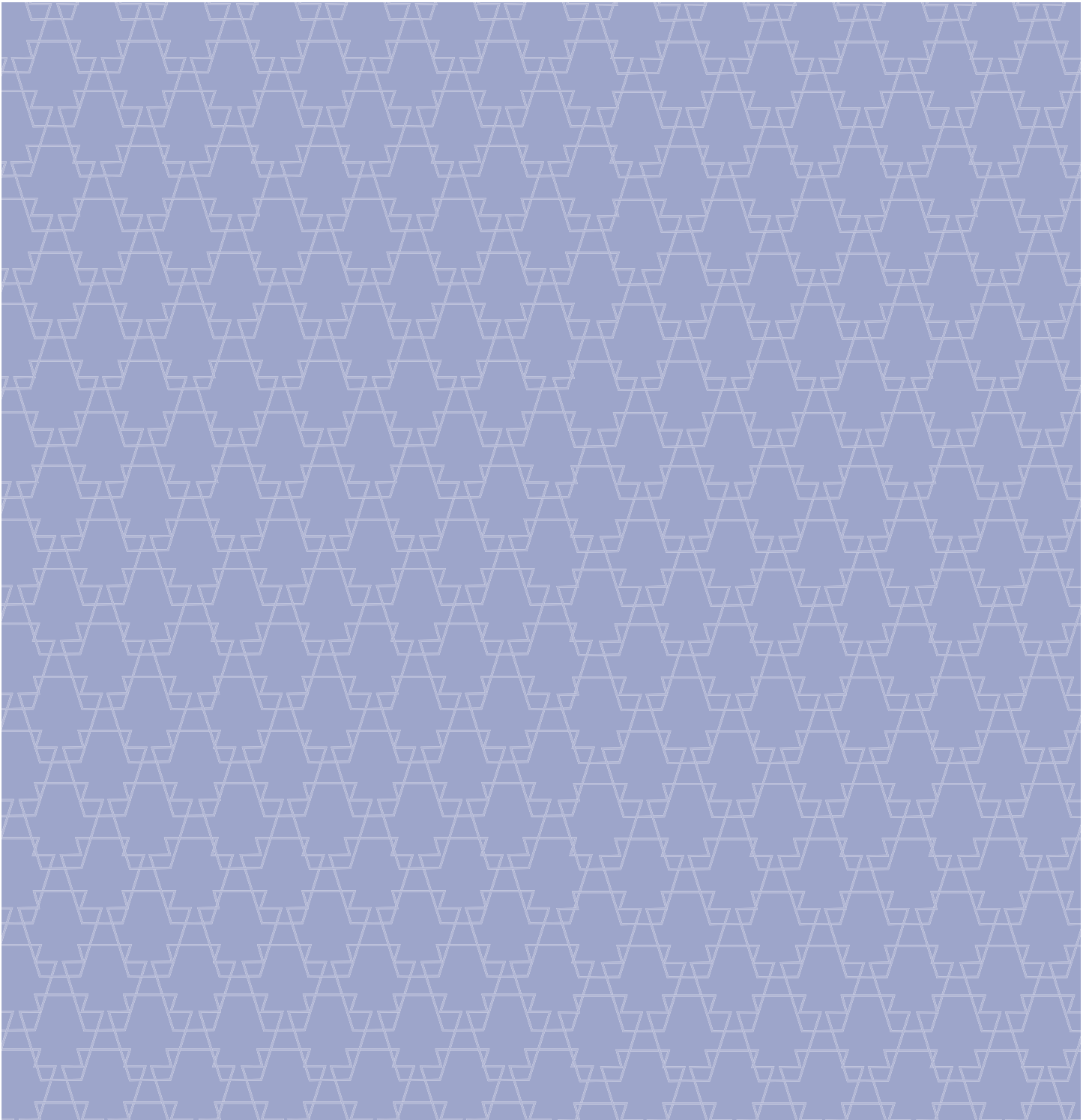
Although the Board's fiduciary duty is to SERS' members and beneficiaries, investments in Pennsylvania provide an ancillary and subordinate benefit to the state's economy as indicated above. The investment policy acknowledges that such benefit, derived from investments in Pennsylvania-based companies,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

The following companies are examples of Pennsylvania investments funded by SERS' private equity and venture capital partnerships:

- **Brightside Academy** (Mid-Atlantic Ventures III, LLR Equity Partners) Brightside Academy provides early care and education for children in a safe, nurturing environment. They provide support to families through the development of a strong partnership, sense of community and mutual respect. Brightside currently serves 5,500 children in 43 locations, 39 of them located in Pennsylvania. The company has 874 employees with a total PA payroll of \$18.8 million.
- **Education Management Corp., Inc.** (Leeds Equity Partners IV, Providence Equity Partners IV) One of the largest providers of private post-secondary education in North America, based on student enrollment and revenue, with over 96,000 students as of fall 2007 at 83 primary campus locations in 26 states and two Canadian provinces. It offers a broad range of academic programs in the media arts, design, fashion, culinary arts, behavioral sciences, health sciences, education, information technology and business, culminating in the award of associate's through doctoral degrees. This company employs 2,756 Pennsylvanians with a total PA payroll of \$102 million.
- **Graham Packaging** (Blackstone Capital Partners III) A worldwide leader in the design, manufacture, and sale of customized blow molded plastic containers for the branded food and beverage, household and personal care, and automotive lubricants markets with 87 plants throughout North America, Europe, and Latin America.

Pennsylvania Investments Summary *(continued)*

- **Nexstar Broadcasting Group, Inc.** (ABRY III) Nexstar is a television broadcasting company that focuses on the acquisition, development, and operation of television stations in medium-sized U.S. markets. Nexstar employs 387 Pennsylvania residents at an annual payroll of \$11.7 million.
- **SunGard Data Systems** (Blackstone Capital Partners IV, Blackstone Communications I, Providence V, TPG Partners III and TPG Partners IV) SunGard's main corporate office is located in Wayne, Pennsylvania. SunGard provides software and processing solutions for financial services, higher education and the public sector. The company also helps information-dependent enterprises of all types to ensure the continuity of their business. On a global basis, SunGard serves more than 25,000 customers in more than 50 countries. SunGard employs 3,000 Pennsylvania residents earning total annual salaries of \$188 million.
- **TargetRx** (Quaker BioVentures, NEA 9) TargetRx offers member physicians an online forum to share their attitudes and beliefs with pharmaceutical companies through surveys and other market research activities. Physicians gauge the effectiveness of existing therapies and identify the need for new treatments. TargetRx is based in Horsham. The company currently employs 82 Pennsylvania residents with a payroll of \$2.4 million.
- **TMG Health, Inc.** (SCP Private Equity Partners II) TMG offers business process outsourcing services to the Medicare, Medicaid, and retiree health plan markets. TMG provides operational outsourcing solutions and information systems for health plans, providers and insurers. The company is headquartered in King of Prussia with its national operation center located in Scranton. TMG currently employs approximately 935 Pennsylvania citizens with a payroll of \$25.5 million.
- **VWR** (Madison Dearborn Capital Partners V, New York Life Capital Partners III) Headquartered in West Chester, Pennsylvania, VWR International, formerly a Merck KGaA subsidiary, distributes more than 750,000 different laboratory products. These goods range from chemicals to lab instruments to protective clothing; suppliers include Applied Scientific, Carl Zeiss, Duracell, Kimberly Clark, and Welch Allyn. The goods are sold to more than 250,000 customers in Europe and North America. Other services include training, technical support, and supply chain systems integration. The company employs 650 Pennsylvanians with total Pennsylvania payroll of \$39 million.



Women/Minority Investment Advisor and Broker Report

as of December 31, 2007 - (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, 2007.

Firm	Status	SERS Assets Under Management
Fairview Capital I & II	Minority Woman-Owned	\$20.0 million commitment; (\$19.6 million actually funded)
Hawkeye Partners	Woman-Owned	\$75.0 million committed
Pacific Alternative Asset Management Co.	Woman-Owned	\$2,221.0 million (market value)
Rock Creek (Penn Quarter, L.P.)	Woman/Minority Owned	\$892.8 million (market value)
Taplin, Canida & Habacht, Inc.	Minority Woman-Owned	\$108.9 million (market value)

Brokers and Brokerage Commissions

SERS' external investment advisors utilized the following minority-owned brokerage firms during calendar year 2007.

Minority commissions totaled \$474,738 for the year. Of this amount, international stock managers had \$229,757 of commissions credited to minority brokers. The SERS Board has a policy of targeting 5%–10% of domestic stock commissions to be done with minority brokers. This year SERS domestic and international 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 \$61.2 million of securities through minority brokers.

Firm	SERS Commissions
BOE Securities	\$6,000
Cabera	3,253
East West	152,093
Guzman & Company	4,302
Institutional Capital	15,646
Jackson Partners	1,914
Magna Capital	7,786
Mischler Financial Group	69,736
Mogavero Lee & Co	14,550
M R Beal	\$1,350
Montrose Securities	2,439
Pacific American	11,764
PCS Securities	7,269
Screaming Eagle Trading	18,178
Selsia Securities	9,823
Sturdivant & Co.	126,857
Williams Capital Group	21,778
Total Minority Commissions	\$474,738



Deferred Compensation Program 12



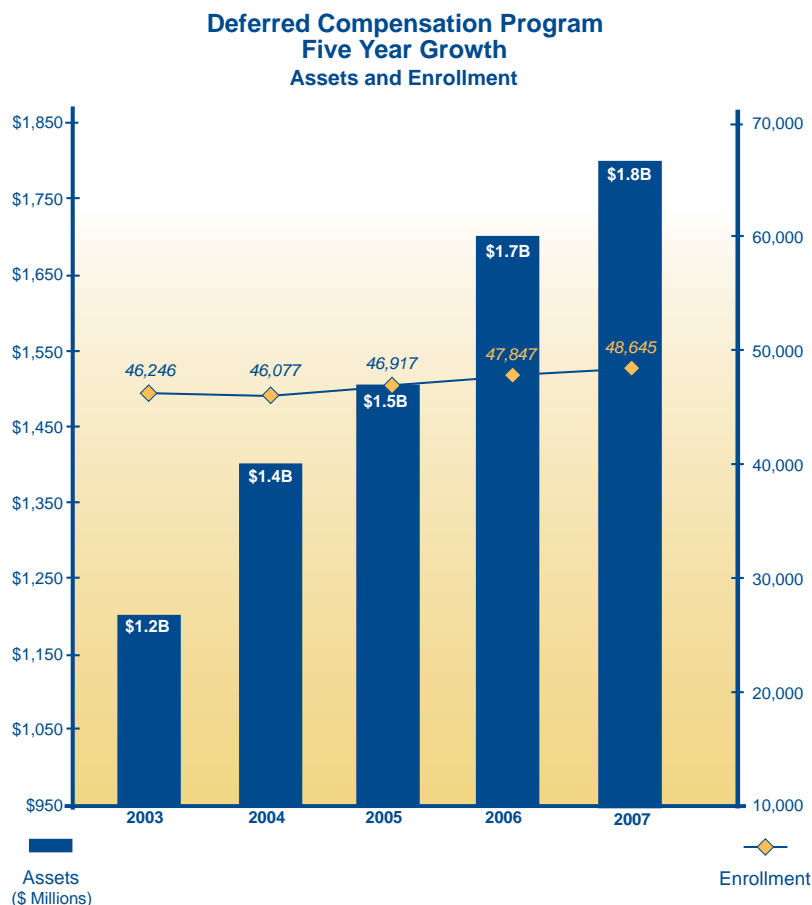
Deferred Compensation Program

Program History

Act 1987-81 assigned to the State Employees' Retirement Board (Board) the responsibility to establish and monitor a Deferred Compensation 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 Deferred Compensation 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 SERB, and are independent of the TPA's functions.

Growth of the Program

Over the past five years, the Program's assets have significantly increased in value from \$1.216 billion to approximately \$1.837 billion. As of December 31, 2007, there were 48,645 active and inactive participants in the Program. Over 47% of eligible employees participate in the Program. The amount of annual participant deferrals increased over the past 5 years ranging from \$130 million in 2003 to \$160 million in 2007. The increase from \$126 million in 2006 to \$160 million in 2007 can be attributed to the large number of participant retirements in June 2007 that used the Program's special catch-up feature. Benefit payments to participants increased over that same time span, from \$33 million in 2003, to \$48 million in 2007. The chart below depicts the Program's asset and participation levels over the past 5 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 balances, 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. At the January 2008 Board meeting, the SERS Board voted to renew the contract with Great-West Retirement Services.

