

2011 Supplemental Budget Information

Prepared for the House Appropriations Committee





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Chairman

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March 7, 2011

Members of the House Appropriations Committee

Dear Members:

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

In 2010 the SERS Fund (Fund) continued to recover from the severe global economic downturn that so adversely affected the Fund in 2008. As detailed at Tab 8, Investment Policy, Objectives and Performance, the Fund earned an estimated 11.9% return in 2010 (unaudited). This marks the 12th time in the last 16 years that the Fund has outperformed our actuarially assumed rate of return, currently 8%. Over the long term, the Fund's performance continues to exceed assumptions: the estimated 20-year compounded rate of return is 9.1% and the 30-year return is 10.1%.

Because SERS is a mature pension plan -- one with more retired than active members (see Tab 5, Member Services and Demographics) -- and because employer contribution rates were artificially suppressed for seven years by Act 2003-40, SERS pays out far more in benefits and expenses each year than it collects in employee and employer contributions. The 2010 payouts totaled \$2.5 billion, while contributions totaled only \$622 million; the remainder of the payouts necessarily came from Fund assets. Thus while earnings totaled \$2.7 billion, as explained on page 33, the Fund grew by much less. The Fund value as of December 31, 2010, stood at \$25.5 billion, up from \$24.6 billion the previous year. Over the past ten years, SERS has paid out more than \$19.5 billion in benefits and expenses, while investment income (including seven years of gains and three of losses) totaled \$12.3 billion. During that 10-year period, employer and employee contributions, combined, totaled \$4.8 billion (employees, \$3.1 billion; employers, \$1.7 billion), not quite a quarter of payouts.

At Tab 7, Funding Process and Actuarial Status, we report on the plan's funded status, which, on an actuarial basis, stood at 84.4% as of December 31, 2009. That number certainly will be lower in the next valuation, despite investment gains in 2009 and 2010, because, under the statutory smoothing methodology in place for SERS, it will take five years to recognize all of the 2008 losses. Nonetheless, we expect that SERS will continue to be better funded than most other public plans, because those other plans were not as well funded as SERS prior to the recession and suffered similar losses in it.

Tab 7 also addresses future employer funding obligations, including the projected rate "spike" and plateau. Act 2010-120 addressed the rate spike in part, by reducing benefits for new employees and by imposing "collars" to limit year-to-year employer rate increases so that rates climb somewhat more gradually than previously projected. Still, projections show the employer contribution rate increasing steadily over the next six years to a peak of 28.1% of payroll in fiscal year 2016/17 and then remaining above 20% through 2032/33. The 2010 valuation will update those projections but we expect the rate levels to be substantially the same. We recognize that the projected employer contribution rates, while increasing more gradually than under the current methodology still present the Commonwealth with a budgetary challenge. We will continue to work with the Legislature and the Administration to address that challenge, while striving to ensure that SERS remains adequately funded in order to meet its long-term obligations.

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

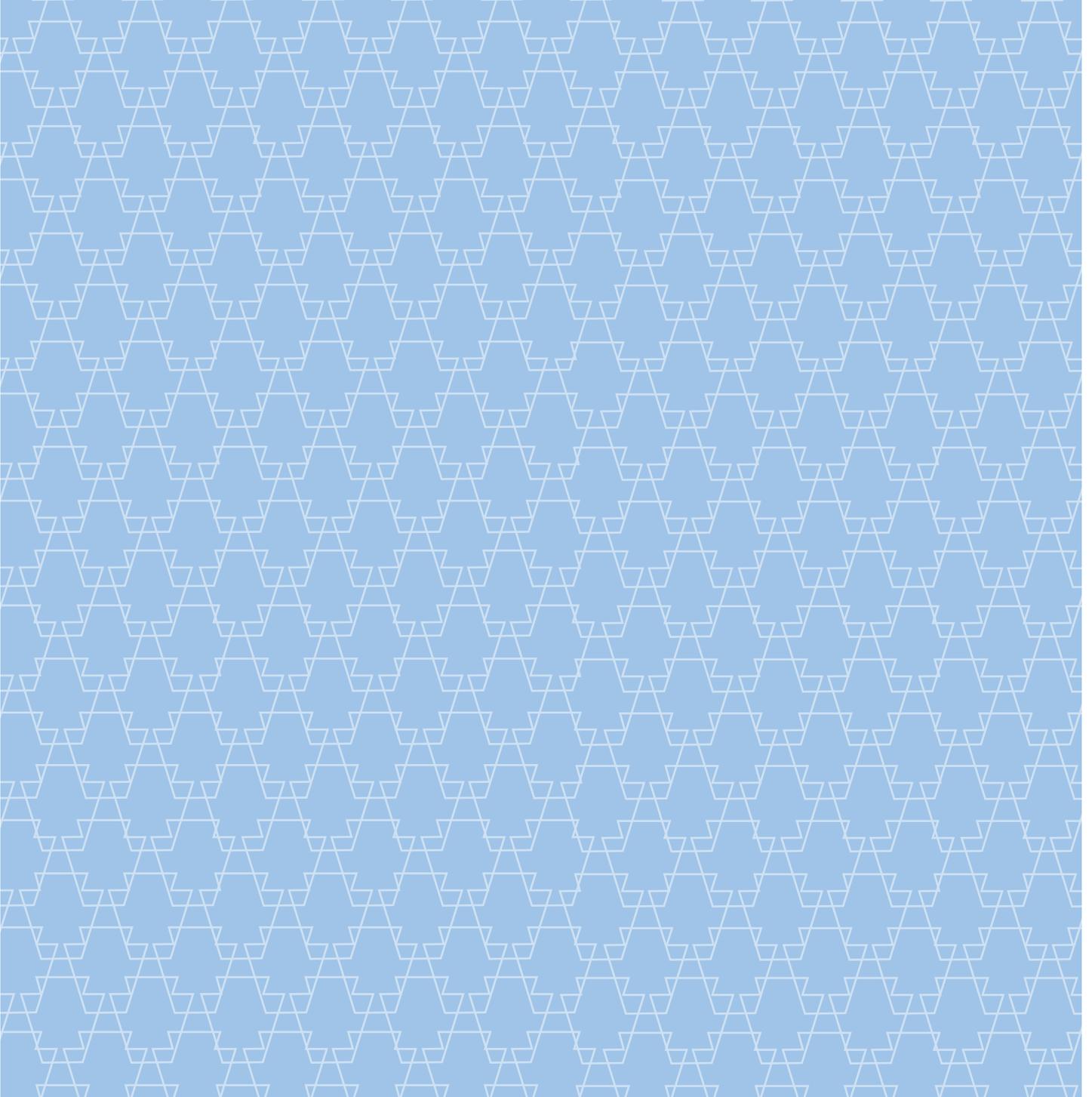
If you have any questions regarding any of the information in this booklet, please contact Executive Director Leonard Knepp. Thank you in advance for your consideration of SERS' 2011-12 budget request.

Sincerely,

Nicholas J. Maiale
Chairman

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Mission, Vision & Guiding Principles

Established in 1923, SERS is one of the nation's oldest and largest statewide retirement plans for public employees, with more than 226,000 members. SERS is among the largest of public and corporate pension funds, with assets of approximately \$25.5 billion as of December 31, 2010.

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

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

Mission

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

Vision

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

Guiding Principles

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

Organization & Operations

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

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

Office of Finance and Administration: Provides the accounting structure for SERS' \$25.5 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 Board on management of the approximately \$2.1 billion Commonwealth Deferred Compensation Program.

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

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

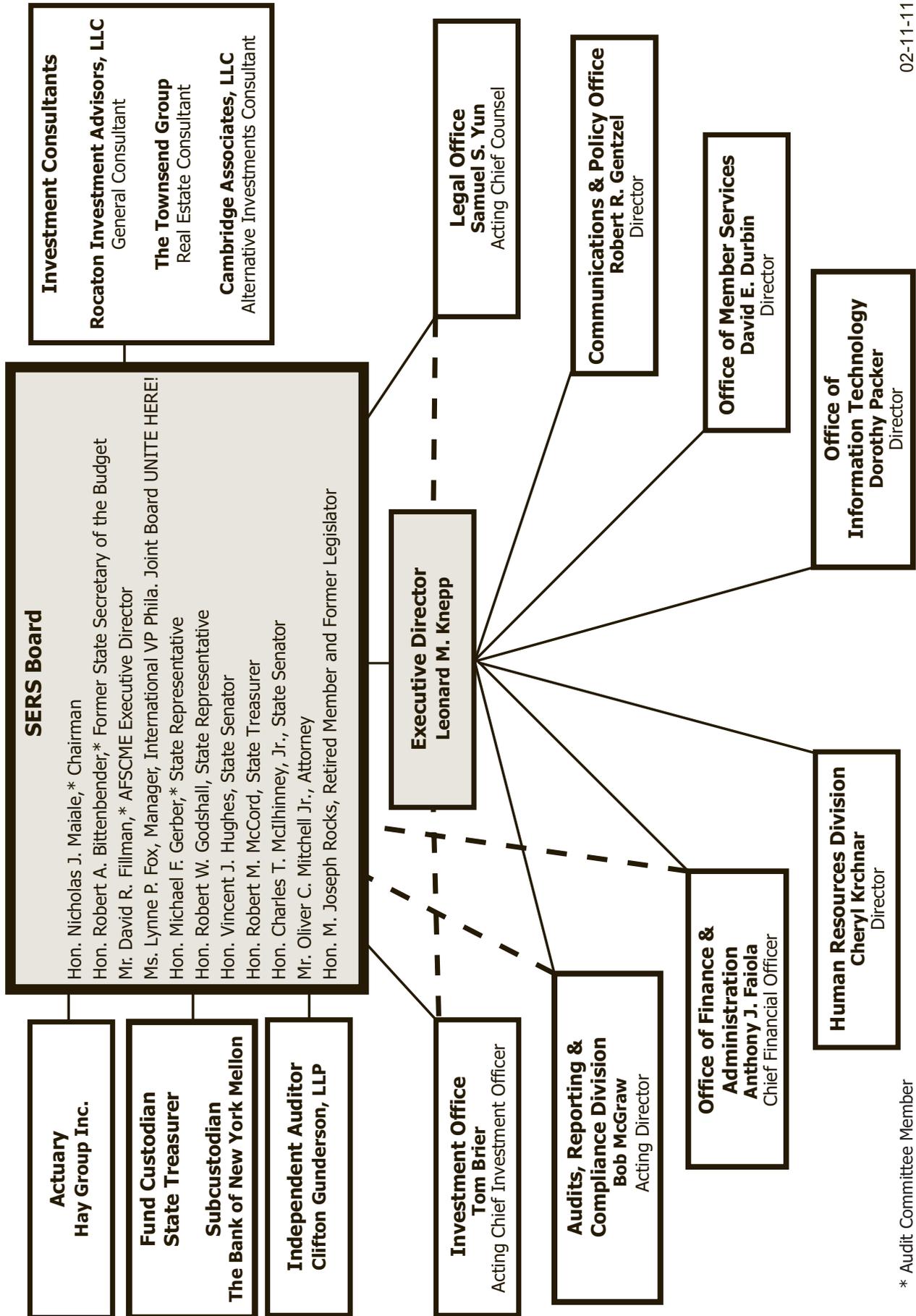
Audits, Reporting and Compliance Division: Provides the Board with the assurance that internal controls are adequate and operating as designed through internal audits of business processes. Coordinates audits performed at SERS by external agencies and auditors. Prepares agency financial and investment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

Human Resources Division: Implements programs and provides direction for all aspects of organizational change and employee needs including, but not limited to, recruitment, classification, compensation, staff development, workforce planning, and labor relations.

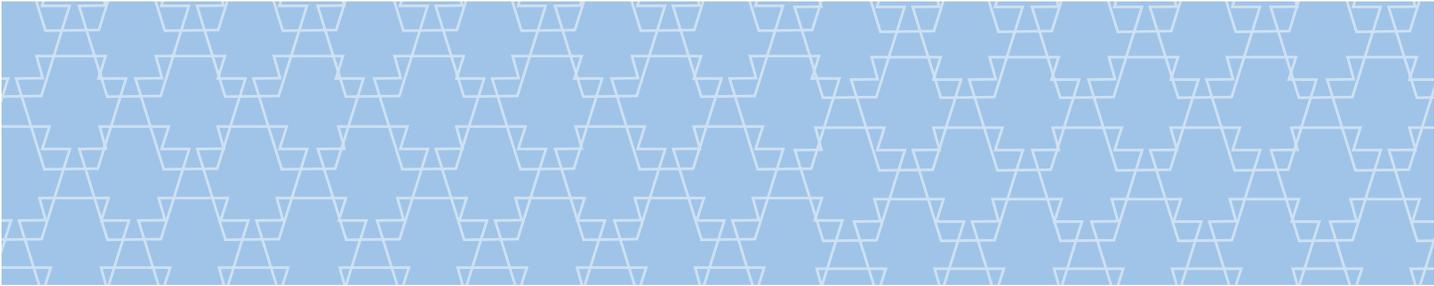
Office of Information Technology: Provides all computer and technical support for SERS operations, including a Wide Area Network linking the agency's seven Regional Retirement Counseling Centers.

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.

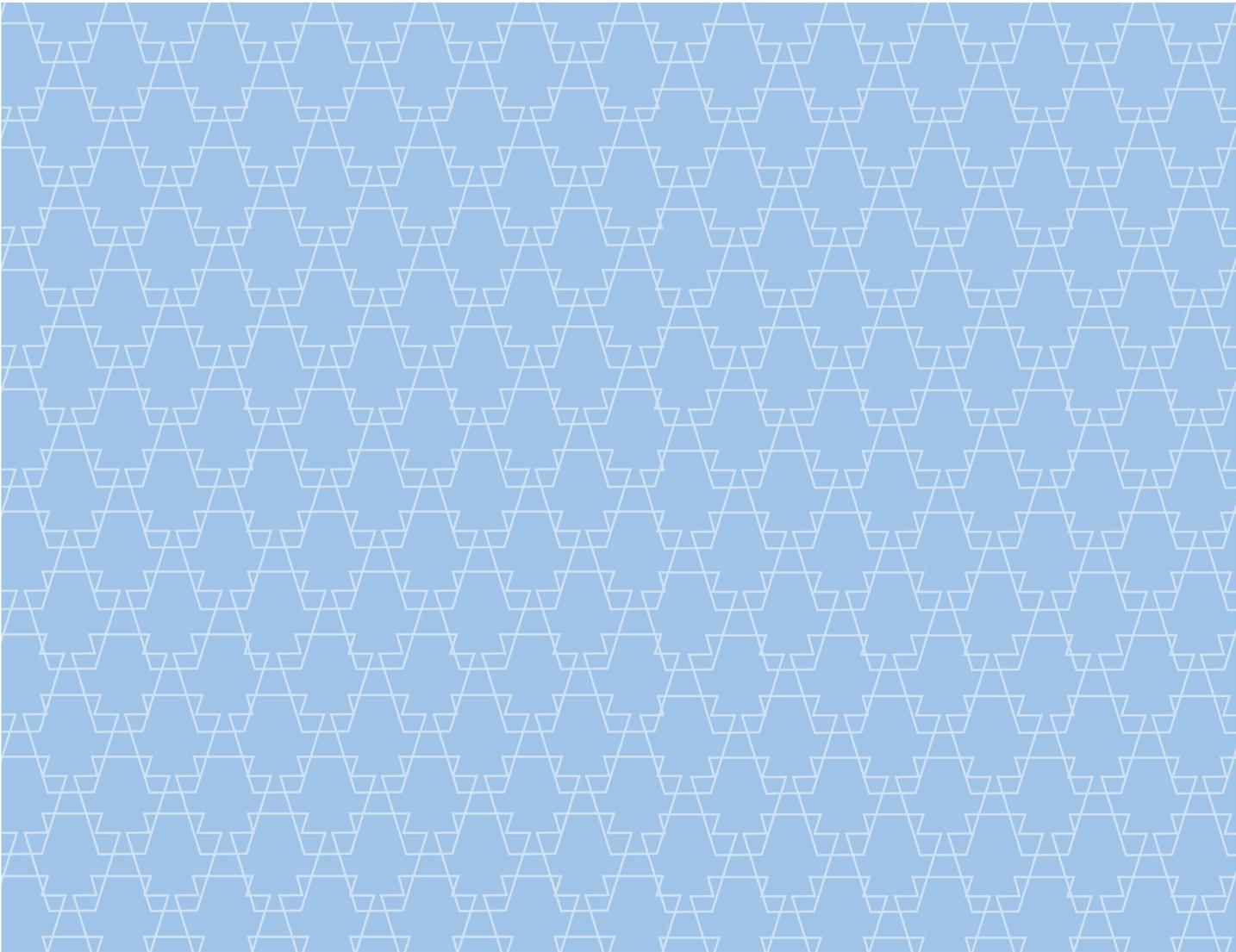
SERS Organizational Chart



* Audit Committee Member



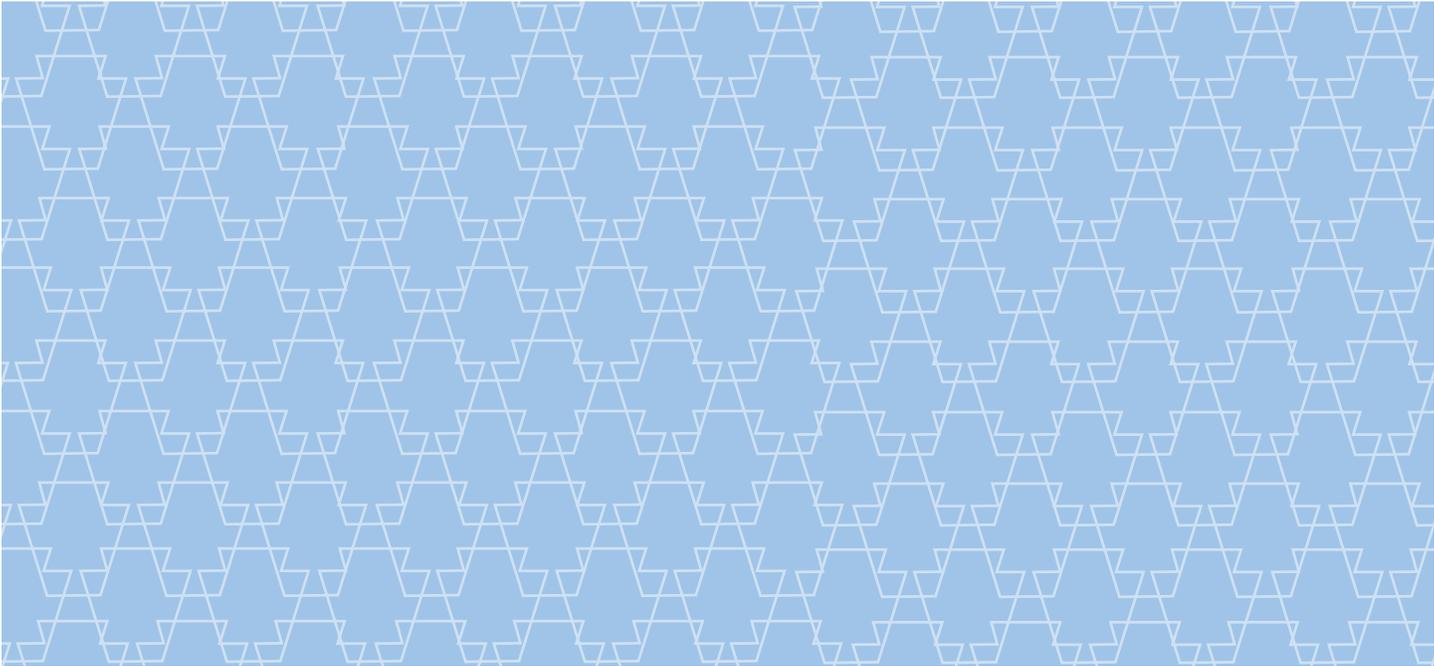
2011-2012 Budget - Board Submission 2



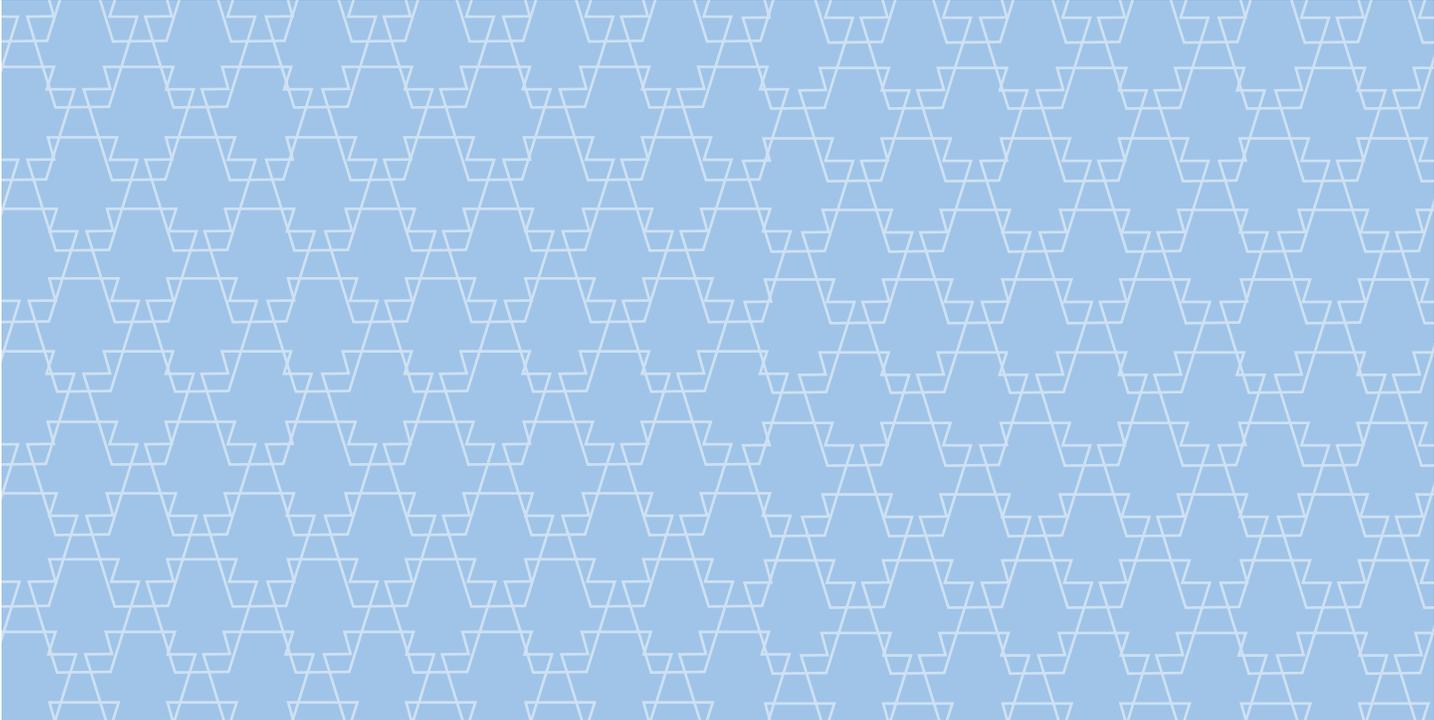
SERS Budget 2011-2012

	Budget 2007-08	Budget 2008-09	Budget 2009-10	Budget 2010-11	Budget 2011-12*
Personnel Services	\$16,402,000	\$16,913,000	\$17,191,000	\$16,141,631	\$17,019,000
Operational Expenses:					
Travel	220,000	205,000	249,700	224,600	141,800
Training	189,000	165,000	185,400	164,900	97,400
Communication Services	312,000	395,000	397,900	385,800	299,900
Telephone/Equipment	165,000	9,000	0	0	0
Consultant	2,953,000	3,863,000	3,876,000	4,874,369	4,197,000
Legal Services/Fees	50,000	52,000	52,000	188,000	100,500
Specialized Services	827,000	781,000	711,300	677,400	624,900
Advertising	4,000	5,000	5,000	5,000	10,000
Contracted EDP Services-Vendor Provided	1,366,000	1,038,000	755,000	1,385,000	925,700
Contracted Maintenance & Repairs-Non-EDP	39,000	48,000	74,200	70,700	68,800
EDP	959,000	862,000	1,076,900	765,000	961,400
Real Estate	1,545,000	1,611,000	1,630,000	1,690,000	1,725,000
Vehicles	63,000	54,000	54,000	32,900	34,100
Office Equipment	135,000	215,000	179,300	95,900	90,000
Other Rentals/Leases	139,000	142,000	138,200	135,500	80,000
Office Supplies	52,000	48,000	48,500	87,300	82,500
Educational Supplies	1,000	1,000	1,000	1,000	2,400
Other Computer Equipment	355,000	609,000	619,500	400,000	150,000
Motorized Equipment Maintenance	16,000	16,000	19,900	18,100	14,800
Postage	315,000	320,000	320,000	210,000	203,100
Freight	7,000	8,000	8,800	8,800	4,500
Printing	210,000	210,000	225,500	197,600	172,400
Subscriptions & Investment Licensing	32,000	80,000	199,300	637,500	430,800
Membership Dues	58,000	60,000	66,900	70,400	61,200
Conference Expenses	19,000	8,000	8,500	12,800	8,300
Purchasing Card Purchases	216,000	236,000	224,300	0	0
Insurance, Surety, & Fidelity Bonds	5,000	8,000	10,000	12,000	13,500
Other Operational Expenses	844,000	861,000	904,900	1,082,800	1,200,000
Total Operational Expenses	11,096,000	11,910,000	12,042,000	13,433,369	11,700,000
Fixed Assets	70,000	25,000	0	0	0
Less: Directed Commissions Applied to Investment Consultant Fees	1,000,000	1,500,000	1,500,000	1,500,000	1,200,000
Total Requested Appropriation	\$26,568,000	\$27,348,000	\$27,733,000	\$28,075,000	\$27,519,000

*This budget has been approved by SERS' Board but is subject to change by the Governor's Executive Budget Committee.



Investment Advisory and Consultant Fees 3



Investment Advisory & Consultant Fees

(Unaudited)

2010 Advisory Fees

Assets	Fees	Fees ^{1/} (in basis points)
Stocks	\$22,632,983	35.2
Fixed Income	15,099,647	42.2
Absolute Return	37,174,648	79.1
Real Estate	28,246,022	131.1
Alternative Investments	119,987,492	197.0
Inflation Protection	7,827,427	72.2
Total Advisory Fees	\$230,968,219	94.0

^{1/}The fees were divided by SERS' total fund and asset class average values during calendar year 2010 to arrive at the basis point calculations.

Average Basis Points Calendar Years Ended 2006-2010

Calendar Year	Fees (\$ millions)	Basis Points
2006	\$286.8	83.5
2007	330.8	86.7
2008	303.8	89.1
2009	252.1	97.0
2010	231.0	94.0

2010 Consultant Fees

Firm	Service Type	Fees
Cambridge Associates	Alternative Investments	\$2,400,000
Rocaton Investment Advisors	General Investment	532,500
The Hay Group	Actuary	510,719
The Townsend Group	Real Estate	250,000
Institutional Shareholders Services	Proxy Services	102,500

Fees to Managers (Non-Budget Appropriation)

(Unaudited)

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

2010 Fees to Managers

U.S. Stocks	City	State/Country	Fees
AXA Rosenberg Investment Management	Orinda	CA	\$309,143
BlackRock - Alpha Tilt	San Francisco	CA	434,752
BlackRock Russell 3000 NL	San Francisco	CA	138,742
BlackRock S&P 500 Index NL	San Francisco	CA	187,385
Emerald Advisors	Lancaster	PA	1,214,859
Iridian Asset Management	Westport	CT	1,041,476
Mellon Equity Associates	Pittsburgh	PA	207,209
Turner Investment Partners	Berwyn	PA	251,725
Absolute Return			
Arden Capital Management	New York	NY	2,472,712
BAAM - Stable Alpha	New York	NY	11,926,510
Mesirow Advanced Strategies Fund	Chicago	IL	6,911,529
Morgan Stanley Alternative Investments Partners	West Conshohocken	PA	2,780,878
Pacific Alternative Asset Management Company	Irvine	CA	9,919,942
Rock Creek	Washington	DC	3,163,077
Inflation Protection			
Blackstone SERS Customized Commodities Fund	New York	NY	4,121,022
NISA Investment Advisors	St. Louis	MO	86,552
Wellington Management Company	Boston	MA	3,619,853
Non-U.S. Stocks			
Artisan Partners	Milwaukee	WI	1,757,578
BlackRock ACWI Ex-U.S. NL	San Francisco	CA	890,856
BlackRock Emerging Markets NL	San Francisco	CA	539,574
Harris Associates	Chicago	IL	1,648,498
Morgan Stanley - EAFE	London	United Kingdom	1,271,031
Pictet International Management - Small Capital	London	United Kingdom	581,478
Pictet International Management - Emerging Markets	London	United Kingdom	349,333
Rexiter Capital Management	Boston	MA	1,387,609
Templeton Investment Counsel	Fort Lauderdale	FL	1,141,818
Templeton Strategic Emerging Markets Fund II	Fort Lauderdale	FL	3,118,891
Templeton Strategic Emerging Markets Fund III	Fort Lauderdale	FL	1,750,000
Global Stocks			
Marathon London Global Fund	London	United Kingdom	2,562,845
Walter Scott & Partners	Edinburgh	United Kingdom	1,848,181

Fees to Managers

Fixed Income	City	State/Country	Fees
Ashmore Emerging Markets Debt Fund	London	United Kingdom	\$1,312,527
Ashmore Emerging Markets Local Currency Fund	London	United Kingdom	1,899,441
Berwind Financial Group	Philadelphia	PA	69,932
Gramercy Advisors	Greenwich	CT	458,685
Greylock Capital Management	New York	NY	762,506
NISA Custom TIPS Intermediate Income	St. Louis	MO	1,218,241
Oaktree Cap Mgmt Mezzanine Fund	Los Angeles	CA	234,278
Pacific Investment Management Company	Newport Beach	CA	941,043
Pyramis Global Advisors Trust Company	Smithfield	RI	1,868,204
Ramius	New York	NY	609,462
SEI Structured Credit Fund	Oaks	PA	831,132
Standish Mellon	Pittsburgh	PA	83,511
Stone Harbor Investment Partners - Emerging Market Debt	New York	NY	1,129,033
Stone Harbor Investment Partners - High Yield	New York	NY	2,301,131
Taplin, Canida & Habacht	Miami	FL	376,812
Waterfall Asset Management	New York	NY	824,547
W.R. Huff Asset Management Company	Morristown	NJ	179,162

Real Estate

AG Asia Realty Fund	New York	NY	274,494
Blackstone Real Estate Partners IV	New York	NY	269,873
Blackstone Real Estate Partners V	New York	NY	568,011
Blackstone Real Estate Partners VI	New York	NY	1,113,328
BPG Investment Partnership V	Yardley	PA	80,484
BPG Investment Partnership VI	Yardley	PA	128,190
BPG Investment Partnership VII	Yardley	PA	294,843
BPG Investment Partnership VIII	Yardley	PA	317,490
Clerestory Small Cap Real Estate Fund I	New York	NY	182,539
Colony Investors VIII	Los Angeles	CA	253,212
Fidelity Real Estate Opportunistic Income Fund	Smithfield	RI	257,811
Fillmore West Fund	San Francisco	CA	376,000
Forest Investment Associates	Atlanta	GA	1,186,854
Goldman Sachs/Whitehall V & VI	New York	NY	82
Goldman Sachs/Whitehall VII & VIII	New York	NY	3,208
Grosvenor Investment Management	Philadelphia	PA	4,065,694
Grosvenor Residential Investment Partners I	Philadelphia	PA	126,977
Hawkeye Scout Fund I	Dallas	TX	574,520
Heitman America Real Estate Trust	Chicago	IL	372,671
Heitman Capital Management	Chicago	IL	1,178,265
ING Clarion Real Estate Securities	Radnor	PA	993,341
LaSalle Investment Management	Baltimore	MD	2,497,919
Lowe Enterprises Investment Management	Los Angeles	CA	3,729,212
Lubert Adler Real Estate Fund II	Philadelphia	PA	8,875

Fees to Managers

(Real Estate, continued)

	City	State/Country	Fees
Lubert Adler Real Estate Fund IV	Philadelphia	PA	\$795,922
Lubert Adler Real Estate Fund V	Philadelphia	PA	242,600
Lubert Adler Real Estate Fund VI	Philadelphia	PA	359,211
Oaktree Cap Mgmt Real Estate Opportunities Fund III	New York	NY	92,969
Oxford Fund	Pittsburgh	PA	450,000
Prudential Latin America Retail Fund I	Parsippany	NJ	375,998
Prudential Latin America Residential Fund III	Parsippany	NJ	336,943
Prudential Senior Housing Partners II	Parsippany	NJ	91,322
Prudential Senior Housing Partners III	Parsippany	NJ	360,506
Rockpoint Finance Fund I	Dallas	TX	64,526
Rockpoint Real Estate Fund I	Dallas	TX	71,632
Rockpoint Real Estate Fund II	Dallas	TX	340,241
Rockpoint Real Estate Fund III	Dallas	TX	532,384
Sentinel Real Estate Corporation	New York	NY	428,539
Starwood Global Opportunity Fund IV	Greenwich	CT	1,231
Starwood Global Opportunity Fund V	Greenwich	CT	3,532
Starwood Global Opportunity Fund VI	Greenwich	CT	622,620
Starwood Global Opportunity Fund VII	Greenwich	CT	417,094
Starwood Global Opportunity Fund VIII	Greenwich	CT	623,124
Trust Company of the West Fund VI	Los Angeles	CA	65,101
UBS Trumbull Property Income Fund	Hartford	CT	467,996
UBS Trumbull Property Fund	Hartford	CT	485,635
Urdang Securities Management	Plymouth Meeting	PA	230,346
Westbrook Real Estate Fund II	Dallas	TX	3,812
Westbrook Real Estate Fund III	Dallas	TX	10,492
Westbrook Real Estate Fund IV	Dallas	TX	61,694
Westbrook Real Estate Fund V	Dallas	TX	106,642
Westbrook Real Estate Fund VI	Dallas	TX	353,471
Westbrook Real Estate Fund VII	Dallas	TX	646,546
Westbrook Real Estate Fund VIII	Dallas	TX	750,000

Venture Capital

Abingworth Bioventures IV	London	United Kingdom	400,000
Abingworth Bioventures V	London	United Kingdom	835,062
ABS Capital Partners VI	Baltimore	MD	842,044
Adams Capital Management III	Sewickley	PA	533,900
Advanced Technology Ventures VI	Waltham	MA	74,421
Advanced Technology Ventures VII	Waltham	MA	406,891
Alloy Ventures 2000	Palo Alto	CA	563,710
Alloy Ventures 2002	Palo Alto	CA	480,319
Alloy Ventures 2005	Palo Alto	CA	592,032
APAX Excelsior VI	New York	NY	249,967
Apex Investment Partners Fund V	Chicago	IL	395,674
Artiman Ventures II	Palo Alto	CA	621,956
Artiman Ventures III	Palo Alto	CA	195,700

Fees to Managers

(Venture Capital, continued)

	City	State/Country	Fees
Atlas Venture Fund IV	Waltham	MA	\$24,730
Atlas Venture Fund V	Waltham	MA	220,279
Atlas Venture Fund VI	Waltham	MA	626,834
Austin Ventures VIII	Austin	TX	221,842
Austin Ventures IX	Austin	TX	294,294
Battery Ventures VIII	Waltham	MA	590,070
Battery Ventures VIII Side Fund	Waltham	MA	26,437
Birchmere Ventures Fund III	Pittsburgh	PA	258,335
Care Capital Investments III	Princeton	NJ	440,987
Charles River Partnership XI	Waltham	MA	227,312
CID Greater China Venture Capital Fund II	Taipei	Taiwan	324,449
Clearstone Venture Partners III	Santa Monica	CA	562,450
Cross Atlantic Technology I	Radnor	PA	44,852
Cross Atlantic Technology II	Radnor	PA	114,567
Devon Park Bioventures	Wayne	PA	211,960
Draper Fisher Jurveston VII	Menlo Park	CA	362,500
Draper Triangle Ventures I	Pittsburgh	PA	378,294
Draper Triangle Ventures II	Pittsburgh	PA	225,000
Frazier Healthcare III	Seattle	WA	202,654
Frazier Healthcare IV	Seattle	WA	257,349
Frazier Healthcare V	Seattle	WA	432,997
Grotech Partners V	Timonium	MD	1,416
Guggenheim Technology Ventures I	King of Prussia	PA	40,595
Halpern Denny Fund III	Boston	MA	360,054
HarbourVest Partners VI	Boston	MA	1,539,000
HarbourVest Partners VII	Boston	MA	750,000
HarbourVest Partners VIII	Boston	MA	1,000,000
Healthcare Ventures VII	Princeton	NJ	692,369
Healthcare Ventures VIII	Princeton	NJ	599,870
Highland Capital Partners VI	Lexington	MA	499,044
Highland Capital Partners VII	Lexington	MA	873,659
Highland Consumer Fund I	Lexington	MA	628,368
I.P. - Fund II	Bellevue	WA	95,487
I.P. - Fund IV	Bellevue	WA	94,433
InterWest Partners VIII	Menlo Park	CA	343,960
InterWest Partners IX	Menlo Park	CA	495,560
InterWest Partners X	Menlo Park	CA	750,000
J.P. Morgan Venture Capital Institutional Investors I	New York	NY	692,009
J.P. Morgan Venture Capital Institutional Investors II	New York	NY	810,327
J.P. Morgan Venture Capital Institutional Investors III	New York	NY	1,060,690
JMI Equity Fund V	Baltimore	MD	265,477
JMI Equity Fund VI	Baltimore	MD	627,153
Kline Hawkes Pacific	Los Angeles	CA	81,502
Knightsbridge Venture Capital VI	Bartlesville	OK	140,000
Lightspeed Venture Partners VII	Menlo Park	CA	452,517

Fees to Managers

(Venture Capital, continued)

	City	State/Country	Fees
Lightspeed Venture Partners VIII	Menlo Park	CA	\$383,936
Meritech Capital Partners II	Palo Alto	CA	99,282
Meritech Capital Partners III	Palo Alto	CA	787,525
Mid-Atlantic Venture Fund IV	Bethlehem	PA	183,303
Morgenthaler Venture Partners VII	Menlo Park	CA	460,169
Morgenthaler Venture Partners VIII	Menlo Park	CA	451,707
Morgenthaler Venture Partners IX	Menlo Park	CA	320,412
New Enterprise Associates IX	Baltimore	MD	179,553
New Enterprise Associates X	Baltimore	MD	186,752
New Enterprise Associates 11	Baltimore	MD	152,049
New Enterprise Associates 12	Baltimore	MD	426,943
Newspring Ventures II	King of Prussia	PA	200,000
Novitas III	King of Prussia	PA	78,322
Novo Vita	Radnor	PA	76
Oak Investment Partners XI	Westport	CT	708,528
Oak Investment Partners XII	Westport	CT	900,000
Pitango Venture Capital Fund IV	Herzliya	Israel	275,092
Pitango Venture Capital Fund V	Herzliya	Israel	675,000
Polaris Venture Partners III	Waltham	MA	738,777
Polaris Venture Partners IV	Waltham	MA	476,111
Polaris Venture Partners V	Waltham	MA	1,250,000
Quaker BioVentures I	Philadelphia	PA	441,812
Quaker BioVentures II	Philadelphia	PA	693,930
Sofinnova Venture Partners VII	San Francisco	CA	398,438
Summit Accelerator	Boston	MA	45,359
Summit Partners Venture Capital Fund II	Boston	MA	234,192
Summit Ventures V	Boston	MA	17,343
T Rowe Price	Baltimore	MD	181,119
Technology Leaders IV	Wayne	PA	74,464
Technology Leaders V	Wayne	PA	270,004
Three Arch Capital Partners I	Portola Valley	CA	290,200
Three Arch Capital Partners IV	Portola Valley	CA	492,708
U.S. Venture Partners VIII	Menlo Park	CA	303,673
Weathergage Venture Capital	Redwood City	CA	250,000
Weathergage Venture Capital II	Redwood City	CA	232,639
Weston Presidio Capital IV	Boston	MA	249,306
Weston Presidio Capital V	Boston	MA	1,751,507
Whitney Equity Partners III	Stamford	CT	81,722
Whitney Equity Partners IV	Stamford	CT	87,500
Worldview Technology Partners IV	San Mateo	CA	136,838

Private Equity

ABRY Advanced Securities Fund I	Boston	MA	511,936
ABRY Broadcast Partners III	Boston	MA	71,734
ABRY Broadcast Partners IV	Boston	MA	135,514

Fees to Managers

(Private Equity, continued)

	City	State/Country	Fees
ABRY Broadcast Partners V	Boston	MA	\$413,484
ABRY Mezzanine Partners	Boston	MA	99,935
ABRY Partners VI	Boston	MA	865,410
ABRY Senior Equity II	Boston	MA	147,900
ABS Capital Partners III	Baltimore	MD	3,291
ABS Capital Partners IV	Baltimore	MD	316,733
ABS Capital Partners V	Baltimore	MD	307,059
Advent International Global Private Equity VI	Boston	MA	513,421
Advent Latin American Private Equity Fund IV	Boston	MA	204,053
Advent Latin American Private Equity Fund V	Boston	MA	423,029
AG Capital Recovery Partners II	New York	NY	4,335
AG Capital Recovery Partners IV	New York	NY	10,401
AG Capital Recovery Partners V	New York	NY	160,259
Alpha Private Equity Fund 4	Paris	France	165,782
Alpha Private Equity Fund 5	Paris	France	1,798,422
APAX Europe Fund V	London	United Kingdom	647,656
APAX Europe VI-A	London	United Kingdom	602,403
APAX Europe VII-A	London	United Kingdom	1,207,914
Apollo Investment Fund IV	New York	NY	47,149
Asia Alternative Capital Partners	San Francisco	CA	100,835
Asia Alternative Capital Partners II	San Francisco	CA	302,877
Asia Pacific Associates III	San Francisco	CA	104,917
Audax Private Equity Fund I	Boston	MA	127,016
Audax Private Equity Fund II	Boston	MA	182,275
Audax Private Equity Fund III	Boston	MA	728,872
Avenue Asia Special Situations Fund IV	New York	NY	999,995
Avenue Europe Special Situations Fund	New York	NY	582,201
Avenue Special Situations Fund IV	New York	NY	671,625
Avenue Special Situations Fund V	New York	NY	1,053,493
AXA Secondary Fund III-1	Paris	France	41,688
AXA Secondary Fund III-2	Paris	France	24,395
AXA Secondary Fund IV	Jersey	Channel Islands	824,286
Bain Capital Asia Fund	Boston	MA	310,271
Bain Capital Europe Fund III	Boston	MA	1,228,089
Bain Capital Fund VII	Boston	MA	211,030
Bain Capital Fund VIII	Boston	MA	29,417
Bain Capital Fund IX	Boston	MA	2,046,501
Bain Capital Fund IX Coinvestment Fund	Boston	MA	397,000
Bain Capital Fund X	Boston	MA	1,894,212
Bain Capital Fund X Coinvestment Fund	Boston	MA	13,080
Baring India Private Equity Fund III	Port Lewis	Mauritius	47,303
Baring Vostok Private Equity Fund IV	Guernsey	Channel Islands	396,535
BC European Capital VII	London	United Kingdom	243,625
BC European Capital VII - Top Up	London	United Kingdom	106,131
BC European Capital VIII	London	United Kingdom	1,319,792

Fees to Managers

(Private Equity, continued)

	City	State/Country	Fees
Berkshire Fund VI	Boston	MA	\$278,074
Berkshire Fund VII	Boston	MA	550,974
Blackstone Capital Partners V	New York	NY	1,225,242
Blackstone Communications Partners I	New York	NY	60,102
Brait IV	Grand Cayman	Cayman Islands	482,914
Brynwood Partners V	Greenwich	CT	186,917
Brynwood Partners VI	Greenwich	CT	361,140
Centerbridge Capital Partners	New York	NY	432,808
Cerberus Institutional Partners Series One	New York	NY	10,951
Cerberus Institutional Partners Series Two	New York	NY	58,454
Cerberus Institutional Partners Series Three	New York	NY	233,597
Cerberus Institutional Partners Series Four	New York	NY	1,124,950
Charterhouse Capital Partners VII	London	United Kingdom	128,427
Charterhouse Capital Partners VIII	London	United Kingdom	448,893
Charterhouse Capital Partners IX	London	United Kingdom	1,008,605
Chequers Capital XV	Paris	France	653,127
Clayton, Dubilier & Rice VI	New York	NY	37,778
Clessidra Capital Partners II	Milan	Italy	499,613
Code, Hennessy & Simmons IV	Chicago	IL	259,683
Code, Hennessy & Simmons V	Chicago	IL	459,433
Cognetas II	London	United Kingdom	497,803
CVI Global Value Fund	Grand Cayman	Cayman Islands	1,172,393
DLJ Merchant Banking III	New York	NY	219,617
Dover Street VII	Boston	MA	168,948
Elevation Partners	Menlo Park	CA	403,287
Energy Spectrum Partners IV	Dallas	TX	309,253
Energy Spectrum Partners V	Dallas	TX	600,000
Eureka II	Yardley	PA	348,846
Excelsior Capital Asia Partners III	Hong Kong	China	500,000
First Reserve Fund X	Greenwich	CT	112,098
First Reserve Fund XI	Greenwich	CT	414,806
First Reserve Fund XII	Greenwich	CT	757,171
Francisco Partners	San Francisco	CA	192,575
Francisco Partners II	San Francisco	CA	4,092
Great Hill Equity Partners II	Boston	MA	358,371
Great Hill Equity Partners III	Boston	MA	1,050,826
Great Hill Equity Partners IV	Boston	MA	324,903
Gryphon Partners II	San Francisco	CA	49,187
Gryphon Partners III	San Francisco	CA	522,786
GTCR Fund VII	Chicago	IL	52,772
GTCR Fund VIII	Chicago	IL	494,946
GTCR Fund IX	Chicago	IL	418,401
H.I.G. Bayside Debt & LBO Fund II	Miami	FL	900,104
HarbourVest International II	Boston	MA	4,904
HarbourVest International Private Equity III	Boston	MA	212,581

Fees to Managers

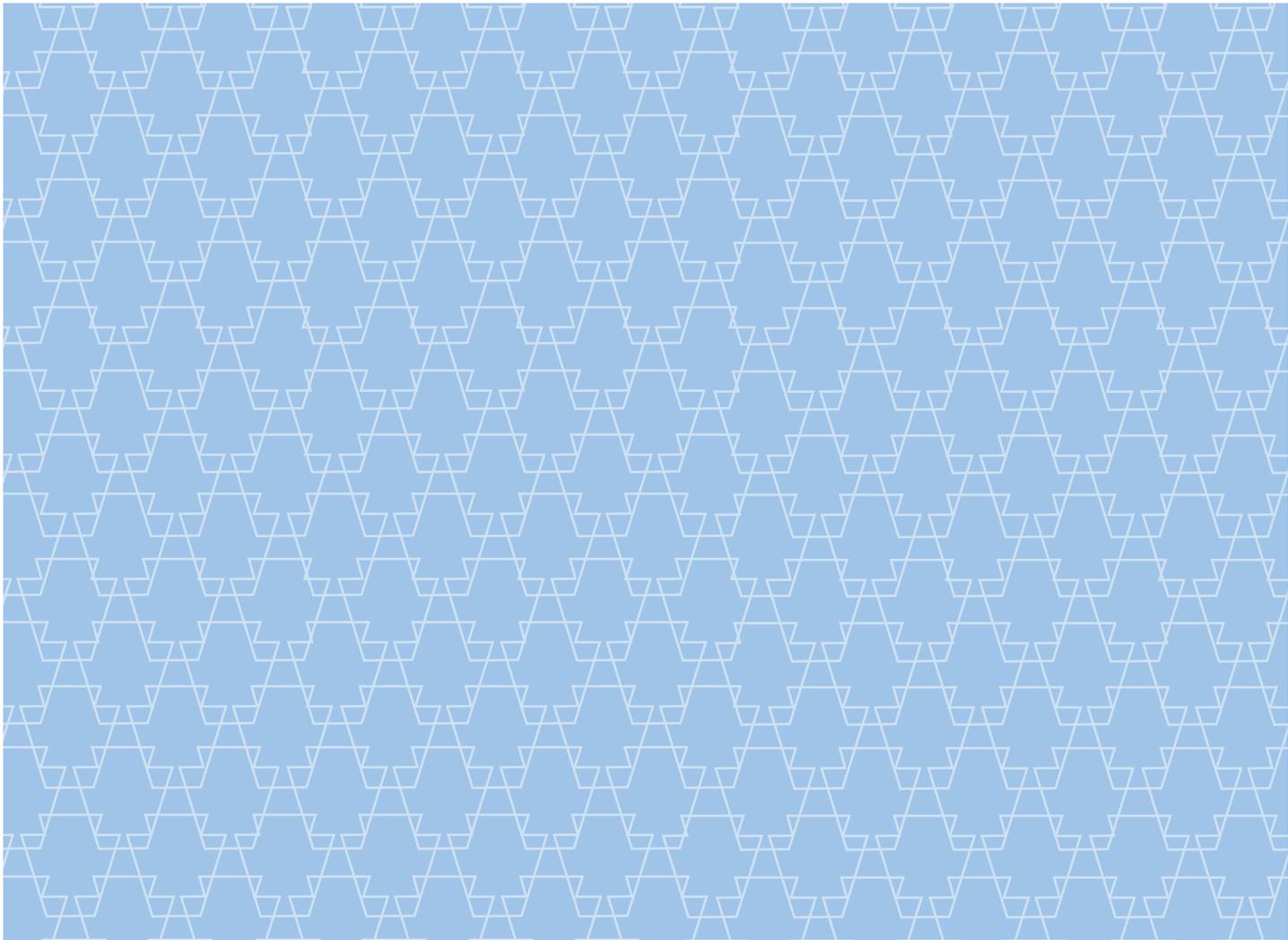
(Private Equity, continued)

	City	State/Country	Fees
HarbourVest International Private Equity IV	Boston	MA	\$359,929
HIPEP V-Asia Pacific and Rest of World Partnership Fund	Boston	MA	300,000
Hellman & Friedman Capital Partners V	San Francisco	CA	374,863
Hellman & Friedman Capital Partners VI	San Francisco	CA	2,386,173
Insight Venture Partners VI	New York	NY	537,879
InterMedia Partners VII	New York	NY	262,500
Invemed Catalyst Fund	New York	NY	12,612
J.H. Whitney Fund V	Stamford	CT	176,100
J.H. Whitney Fund VI	Stamford	CT	497,435
J.H. Whitney Fund VII	Stamford	CT	283,568
J.P. Morgan U. S. Corporate Financial Institutional Investors II	New York	NY	402,326
J.W. Childs Equity Partners III	Boston	MA	200,049
Kelso Investment Associates VII	New York	NY	234,556
Kelso Investment Associates VIII	New York	NY	2,271,168
Leeds Weld Equity Partners IV	New York	NY	32,260
Lexington Capital Partners II	New York	NY	8,061
Lexington Capital Partners III	New York	NY	34,683
Lexington Capital Partners V	New York	NY	316,475
Lexington Capital Partners VI	New York	NY	311,670
Lime Rock Partners III	Westport	CT	189,555
Lime Rock Partners IV	Westport	CT	406,678
Lime Rock Partners V	Westport	CT	848,844
Lime Rock Resources C	Westport	CT	339,404
LLR Equity Partners	Philadelphia	PA	94,299
LLR Equity Partners II	Philadelphia	PA	308,754
LLR Equity Partners III	Philadelphia	PA	600,000
Madison Dearborn Capital Partners IV	Chicago	IL	309,293
Madison Dearborn Capital Partners V	Chicago	IL	303,903
Madison Dearborn Capital Partners VI	Chicago	IL	662,858
Matlin Patterson Global Opportunities Partners	New York	NY	44,007
Media Communications Partners V	Boston	MA	287,715
Meridian Venture Partners II	Radnor	PA	399,646
New York Life Capital Partners III	New York	NY	500,000
New York Life Capital Partners IV	New York	NY	500,000
Newbridge Asia III	San Francisco	CA	116,107
Newbridge Asia IV	San Francisco	CA	236,099
Nordic Capital VI	Stockholm	Sweden	370,176
Nordic Capital VII	Stockholm	Sweden	1,378,076
Oak Hill Capital Partners I	Menlo Park	CA	42,784
Oaktree Cap Mgmt Opportunities Fund I	Los Angeles	CA	71,838
Oaktree Cap Mgmt Opportunities Fund IV	Los Angeles	CA	14,604
Oaktree Cap Mgmt Opportunities Fund VI	Los Angeles	CA	428,790
Oaktree Cap Mgmt Opportunities Fund VII	Los Angeles	CA	619,218
Oaktree Cap Mgmt Opportunities Fund VIIb	Los Angeles	CA	599,213
Oaktree Cap Mgmt Opportunities Fund VIII	Los Angeles	CA	58,700

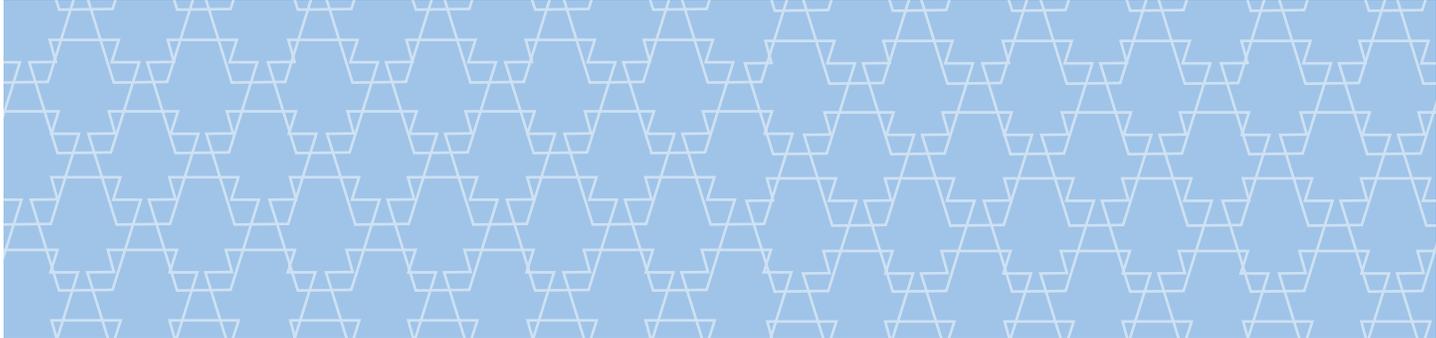
Fees to Managers

(Private Equity, continued)

	City	State/Country	Fees
Oaktree Cap Mgmt Principal Opportunities Fund II	Los Angeles	CA	\$76,908
Oaktree Cap Mgmt Principal Opportunities Fund IV	Los Angeles	CA	280,752
Oaktree Cap Mgmt/GFI Power Opportunities Fund II	Los Angeles	CA	39,230
Palamon Partners I	London	United Kingdom	622,640
Palamon European Equity II	London	United Kingdom	818,509
Parthenon Investors II	Boston	MA	203,078
Patriot Financial Partners	Philadelphia	PA	441,926
Permira European Fund II	London	United Kingdom	350,339
Permira European Fund III	London	United Kingdom	1,090,603
Permira IV	London	United Kingdom	520,545
PNC Equity Partners II	Pittsburgh	PA	133,270
Providence Equity Offshore Partners V	Providence	RI	229,074
Providence Equity Partners VI	Providence	RI	490,175
Sankaty Credit Opportunities III	Boston	MA	996,341
Sankaty Credit Opportunities IV	Boston	MA	762,244
SB Energy Partners I-B	Denver	CO	466,061
SCP Private Equity Partners II	Wayne	PA	216,107
Segulah IV	Jersey	Channel Islands	296,428
ShoreView Capital Partners	Minneapolis	MN	138,224
ShoreView Capital Partners II	Minneapolis	MN	656,440
Siguler Guff BRIC Opportunities Fund	New York	NY	95,850
Siguler Guff BRIC Opportunities Fund II	New York	NY	195,535
Sterling Capital Partners	Northbrook	IL	95,264
Sterling Capital Partners II	Northbrook	IL	295,455
Sterling Capital Partners III	Northbrook	IL	561,166
Summit Partners Private Equity Fund VI	Boston	MA	792,076
Summit Partners Private Equity Fund VII	Boston	MA	1,896,849
TA IX	Boston	MA	325,284
TA X	Boston	MA	2,668,703
Thomas H. Lee Equity Fund V	Boston	MA	188,372
Thomas H. Lee Equity Fund VI	Boston	MA	496,451
TPG Asia V	Fort Worth	TX	333,925
TPG Partners V	Fort Worth	TX	112,553
TPG Partners VI	Fort Worth	TX	419,752
Trust Company of the West - Special Credits V	Los Angeles	CA	2,707
UMS Partners Fund I	Philadelphia	PA	57,942
Versa Capital Management	Philadelphia	PA	429,723
Versa Capital Fund II	Philadelphia	PA	187,493
Vestar Capital Partners IV	New York	NY	203,820
Vestar Capital Partners V	New York	NY	587,311
W Capital Partners II	New York	NY	842,947
Yucaipa American Alliance Fund II	Los Angeles	CA	99,270
Total Fees to Managers			\$230,968,219



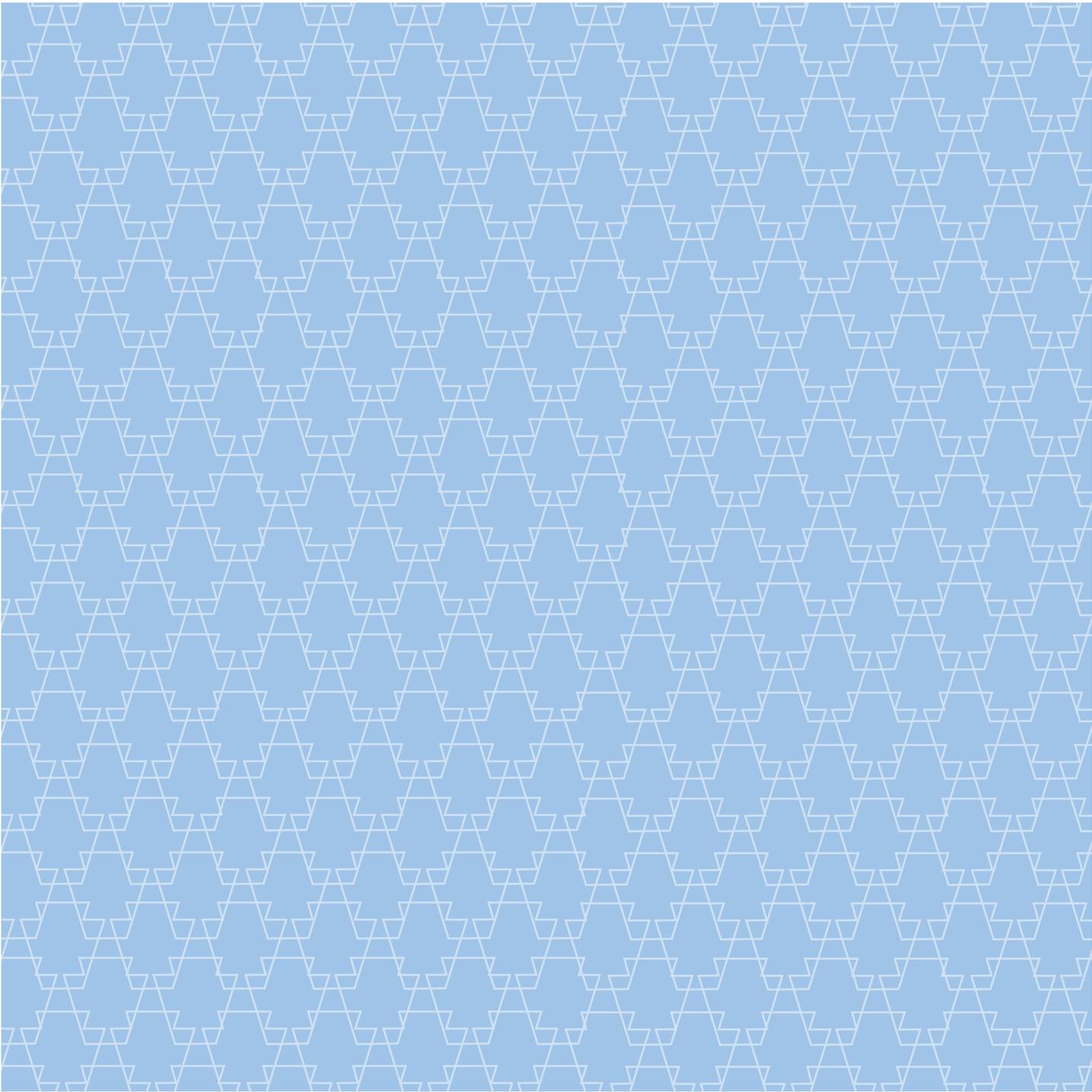
Directed Commissions 4



Directed Commissions

Directed Commissions

	FY 2010-11 Budget	FY 2011-12 Budget
Beginning Balance	\$3,755,889	\$2,355,889
Revenue:		
Directed Commissions	100,000	100,000
Total Available	3,855,889	2,455,889
Expenses:		
Investment Consultants	1,500,000	1,200,000
Ending Balance	\$2,355,889	\$1,255,889



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 ten 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

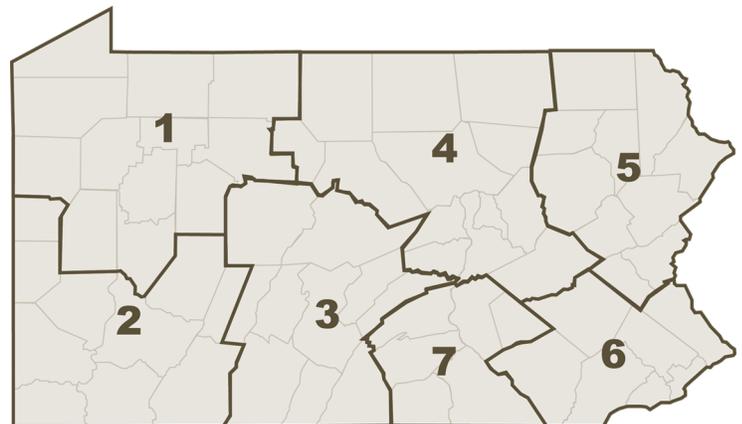
Region 1 Seneca Office Serving Armstrong, Butler, Clarion, Crawford, Elk, Erie, Forest, Jefferson, McKean, Mercer, Venango and Warren counties.

Region 2 Pittsburgh Office Serving Allegheny, Beaver, Cambria (Western), Fayette, Greene, Indiana, Lawrence, Somerset, Washington and Westmoreland counties.

Region 3 State College Office Serving Bedford, Blair, Cambria (Eastern), Centre, Clearfield, Franklin, Fulton, Huntingdon, Juniata and Mifflin counties.

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

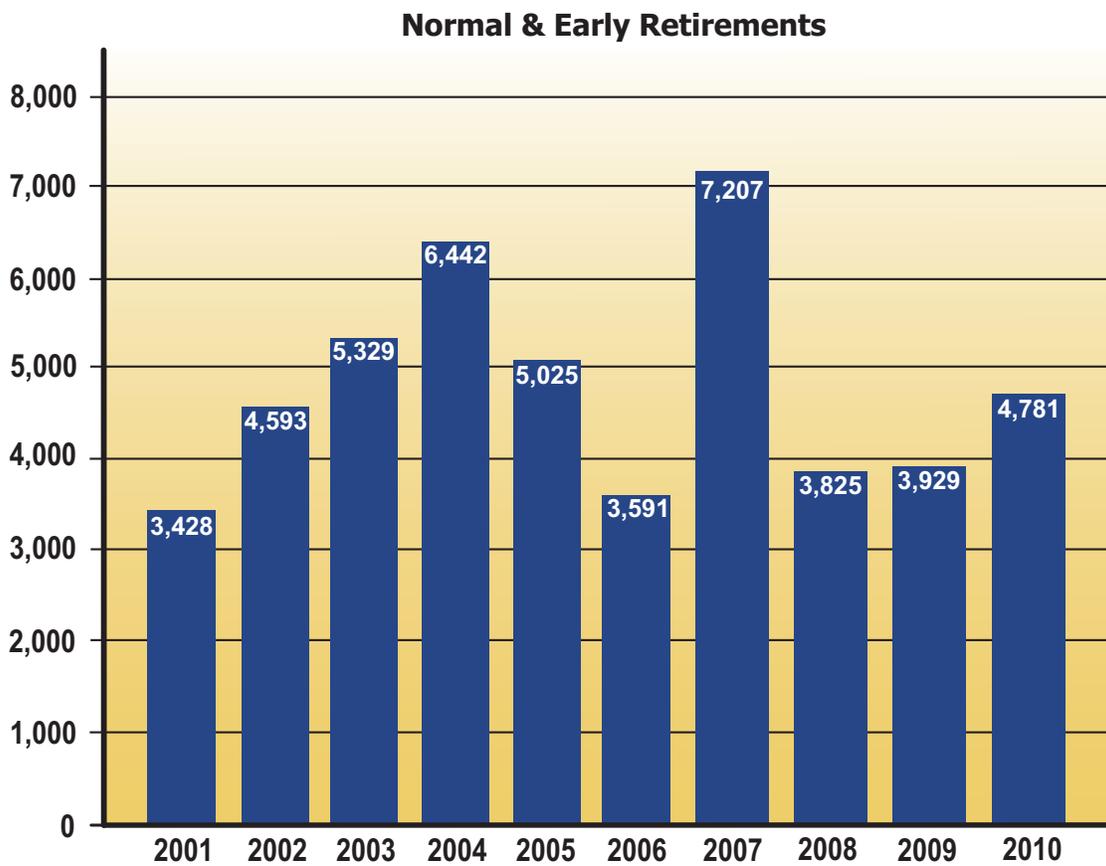
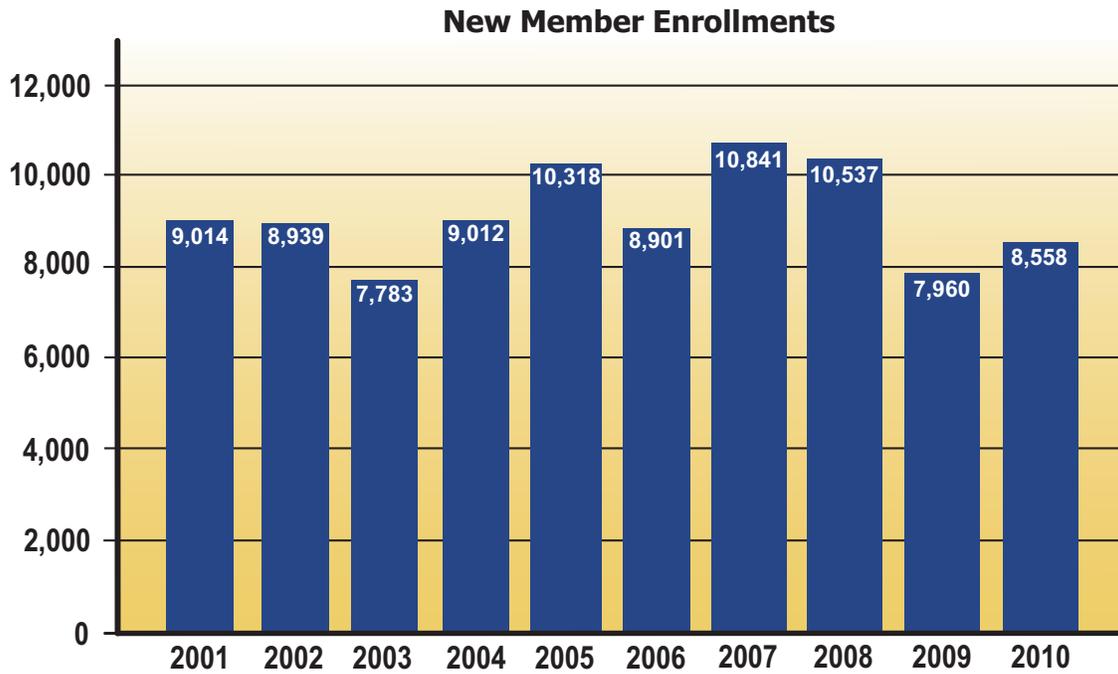
Region 5 Hazleton Office Serving Carbon, Lackawanna, Lehigh, Luzerne, Monroe, Northampton, Pike, Susquehanna, Wayne and Wyoming counties.



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

Region 7 Harrisburg Office Serving Adams, Cumberland, Dauphin, Lebanon, Perry and York counties.

Benefit Processing



SERS Member Demographics

Year Ending December 31	Membership		
	Total Members	Active Members	Annuitants & Beneficiaries
2010	220,968*	109,255	111,713
2009	220,097	110,458	109,639
2008	219,012	110,866	108,146
2007	216,740	109,610	107,130
2006	213,032	110,972	102,060
2005	211,160	109,981	101,179
2004	207,132	108,405	98,727
2003	203,430	109,018	94,412
2002	202,287	111,059	91,228
2001	198,933	109,716	89,217

**This total does not include inactive members.*

Since 2001 Annuitants and Beneficiaries have increased by 25% while the number of Active Members has remained relatively steady.

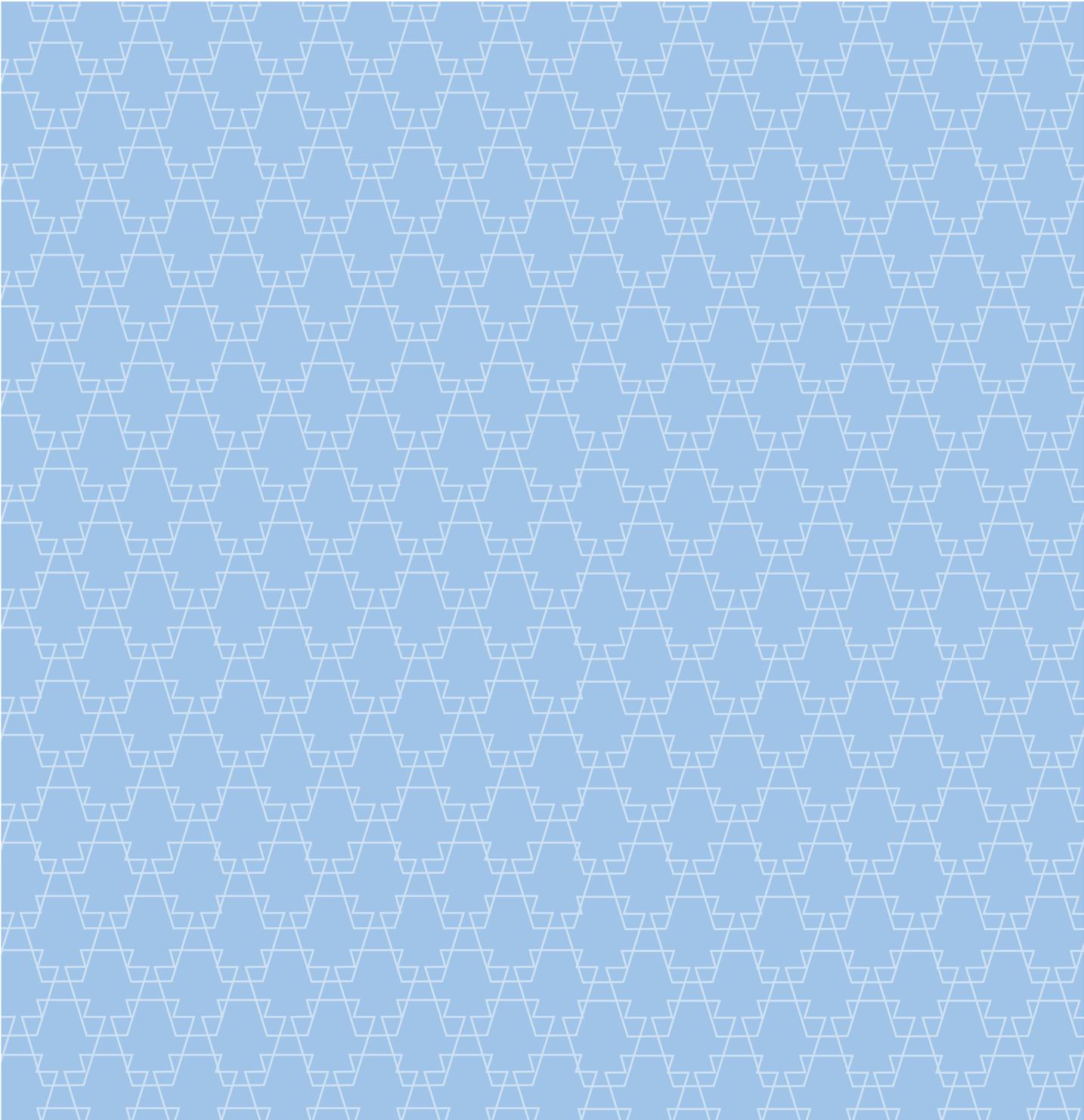
Active Member Age and Service as of December 31, 2010

Average Age:	46.6
Average Years of Service:	12.6

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

	Average Age				Average Annual Pension			
	2007	2008	2009	2010	2007	2008	2009	2010
Superannuation Annuitants	72.8	72.8	72.8	72.7	\$21,327	\$21,965	\$22,695	\$23,491
Early Retirees	61.4	61.8	62.2	62.7	14,516	14,668	14,932	15,209
Disabled Annuitants	60.5	60.8	61.1	61.4	13,026	13,251	13,443	13,774
Beneficiary/Survivors	75.0	75.0	74.9	75.0	8,654	9,094	9,481	9,833

Since 2007 the average annual superannuation pension is up 10%.



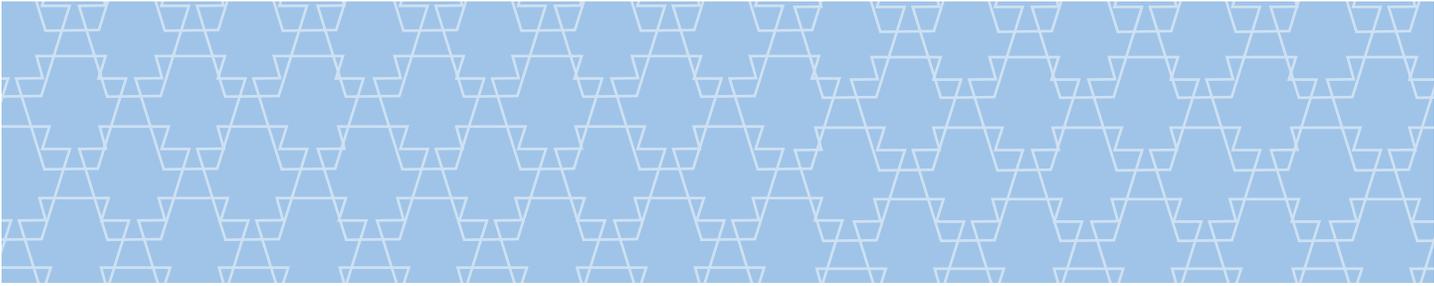
Legislation

Legislation Enacted During 2010

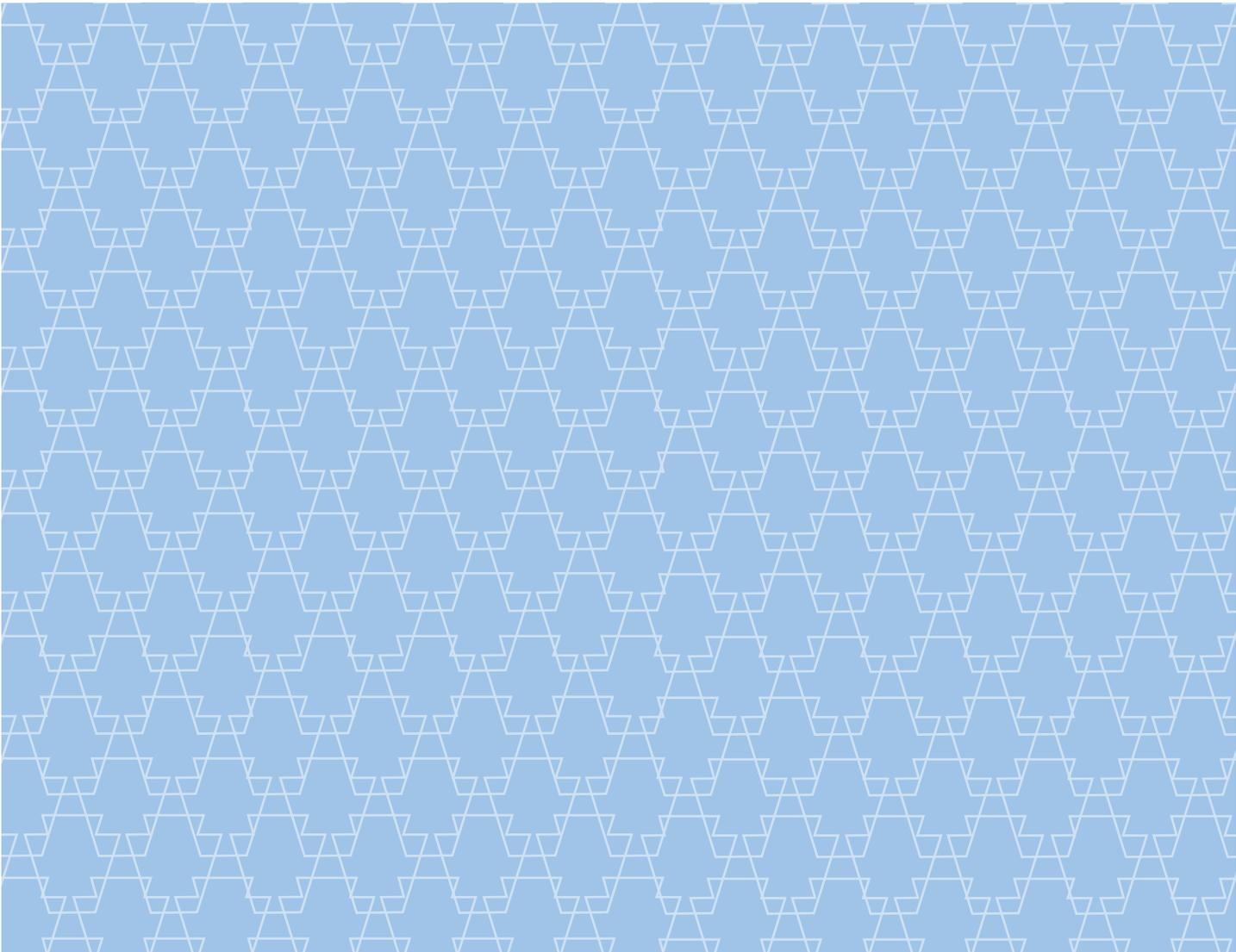
Act 2010-44 required SERS and other Commonwealth funds for which the State Treasurer is the custodian to initiate an “engagement” process – now under way – with “scrutinized companies” in which the funds are invested and which do business in Sudan and Iran. Should the companies’ response to engagement not be satisfactory, the funds would be required to divest their investments in the companies. Scrutinized companies are those in the energy sector doing a certain level of business in Sudan or Iran and providing royalties to the governments, or companies providing military supplies to either country.

Act 2010-46 lowered the composite employer contribution rate for Fiscal Year 2010-2011 from the Board-certified rate of 5.64% to 5.0% -- 1% more than the composite employer contribution rate of 4% for Fiscal Year 2009-2010.

Act 2010-120 implemented a number of benefit reduction changes for future SERS members effective January 1, 2011 (with certain exceptions). Also included in Act 2010-120 were several changes that affected SERS’ funding, including collars on employer contribution rates that will result in an 8% employer contribution rate for 2011-2012. The Act also prohibits the use of pension obligation bonds (POBs) for funding liabilities.



Funding Process and Actuarial Status 7



Funding Process & Actuarial Status

(Unaudited)

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

What is a Defined Benefit Pension Plan?

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

In contrast, the Commonwealth’s Deferred Compensation Program (an 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

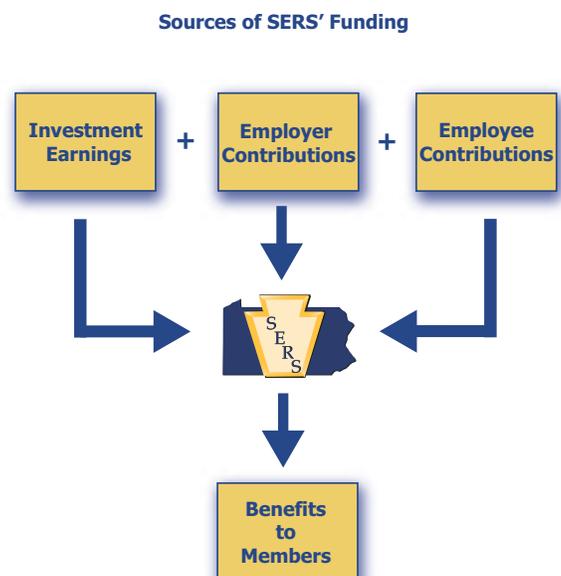
The ultimate cost of the Plan is determined by the total benefits to be paid to retired members throughout their lives and to Beneficiaries of deceased members. This cost cannot be precisely determined prospectively because the commencement and duration of benefits for Active Members and the duration 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 (Fund). Based upon the latest member demographic data, the actuary determines the value of expected future obligations and compares it to the value of the Retirement Fund’s assets. Based on this valuation, the actuary recommends employer contribution rates to the State Employees’ Retirement Board (Board). The Retirement Code vests the Board with the authority to establish the employer contribution rates, and the Board uses the annual actuarial valuation to do so.

Interrelationship of Funding Sources

The framers of the Retirement Code designed SERS as a system that, to remain financially sound, would require regular funding each year from each of the three sources shown at right: employees, employers and investment earnings. Currently, most employees contribute 6.25% of salary, a rate set by statute. The currently assumed rate of return on investments is 8%. (The Board establishes the assumed rate based on advice from staff, investment consultant and actuary; in January 2011 after conducting its five-year actuarial experience study, the actuary recommended the Board continue the current



Funding Process & Actuarial Status *(continued)*

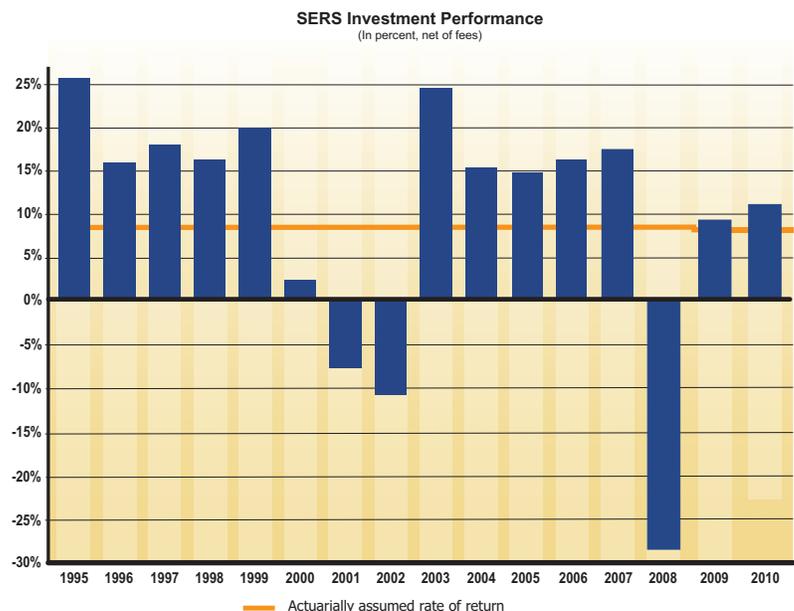
investment return assumption of 8%.) The “employer normal cost” is the amount employers would pay if the assumed rate of return and all other actuarial assumptions proved to be precisely correct and there were no unfunded liability. The normal cost is calculated each year based on the benefit earned by new members entering the System. The current normal cost is 3.9% of payroll -- nearly half the cost calculated last year because Act 2010-120 reduced the benefit earned by all new members.

Obviously, it is beyond the power of the Board to know in advance how much investments will earn in any given year. Actual returns can vary widely; in fact, it is highly unlikely that the investment returns will precisely match the assumed return in any given year. The Retirement Code recognizes this reality and deals with it by creating a linkage between investment earnings and employer contributions. It does so by requiring the Board to adjust the employer contribution rate each year based on actual investment returns and actuarial experience. When investment earnings exceed the 8% actuarially assumed return, the Board may be able to reduce the employer contribution rate. Conversely, when investment earnings fall short of assumptions, the Board may find it necessary to increase the employer contribution rate. As a result, the employer share has varied widely. The current 5% employer share has recently been as low as zero and is currently projected to steadily increase over the next six years to a peak of 28.1% of payroll in fiscal year 2016/17, and then remain above 20% through FY 2032/33.

On the other hand, the employee contribution rate is fixed by statute and doesn’t change from year to year. In an effort to share some of the investment risk with employees, Act 2010-120 included a provision that requires the new members earning an Act-120 benefit to contribute an additional Shared Risk Contribution in the event of a sustained period of investment performance below the assumed rate. The Shared Risk Contribution, if any, will be established every three years beginning in 2014.

Funding Source 1: Investment Earnings

SERS’ investment program earned an 11.9% (unaudited) return in 2010, adding \$2.7 billion to the Fund. As Chairman Maiale indicated in his cover letter, this strong return exceeded the assumed rate of return, helping the Fund rebound after the global economic crisis in 2008.



Because the Fund is invested in the global financial markets, its performance tends to reflect trends in the global economy. From 1995 through 1999, the Fund experienced investment rates of return ranging from a low of 15.9% to a high of 25.2%, and earned its best ever five-year annualized return of close to 19%. Returns fell into barely positive territory in 2000, followed by two years of negative returns in the 2001-02 bear market. The Fund then posted exceptionally strong returns over the 2003-07 period, achieving a five-year annualized return of 17.5%. The global economic crisis and resulting recession struck the Fund hard in 2008, however, resulting in a return of minus 28.7% and essentially erasing the prior two years’ earnings. *See above illustration, SERS Investment Performance.* The global recession dragged into the first quarter of 2009, but as the markets began to recover over the subsequent three quarters, so did the Fund -- earning a return of 9.1% for the year. The economic recovery continued in 2010 but was accompanied by market volatility. The Fund felt that volatility as first quarter positive returns were largely offset by losses in the second quarter. The Fund rebounded with a third quarter gain of 5.2% and closed the year with a strong 5.7% fourth quarter return, yielding an 11.9% (unaudited) gain for the year.

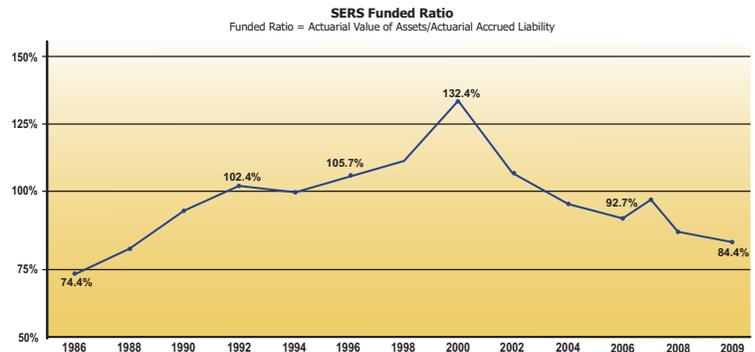
In order to smooth out fluctuations in the fair value of assets, which could otherwise result in volatile year-to-year changes in employer contribution requirements, SERS and its actuary rely upon the actuarial value of assets (not the fair value) for funding calculations. Over a five-year period, the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

Funding Process & Actuarial Status *(continued)*

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

Funded Position

The funded position of the System is measured by its funded ratio -- the actuarial value of assets, divided by the actuarial accrued liability. The most recent actuarial valuation, as of December 31, 2009, showed SERS to be 84.4% funded. That will change, however, in the 2010 and subsequent valuations as the remainder of 2008's deep negative return is smoothed in and as ongoing benefit payouts, far in excess of contributions, are factored into the actuarial funding calculation. On a fair value basis, SERS was 68.9% funded as of December 31, 2009; we expect the 2010 and subsequent actuarial valuations will show the actuarial value of assets moving closer to the current fair value.



In addition to the investment losses of 2008 and 2001-02, the System's underfunded status also is attributable in part to Act 2001-9 benefit enhancements and the 2002-3 COLA, both of which significantly increased the Fund's actuarial accrued liabilities. Changes to the funding methodology also have contributed to the unfunded status. Act 2003-40, which temporarily suppressed employer contribution rates, deprived the System of funding for seven years. *See above illustration, SERS Funded Ratio.*

In the near term, the funded ratio will be impacted by Act 2010-120 funding "collars" as they cap annual increases in employer contribution rates. The added costs associated with those collars are offset, however, by the benefit reductions for all new employees, producing a net savings to the System of approximately \$1.5 billion.

Key points:

- The 2010 investment return of 11.9% (unaudited) is above the assumed rate of return for the second year in a row following the losses sustained during 2008's global economic crisis.
- The SERS Fund historically has outperformed its assumed rate and on a long-term basis continues to do so. Even with the 2008 losses, the 20-year estimated compounded rate of return is 9.1% and the 30-year return is 10.1%.
- Over the next three years, SERS' funded ratio will continue to be impacted by the 2008 losses due to the Fund's statutory five-year smoothing methodology in which investment gains and losses are smoothed in over five years.

Funding Source 2: Employer Contributions

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

The employer contribution rate is comprised of two parts: the normal cost to fund the benefit of new members entering the System in the current year; and a contribution for the unfunded actuarial liability (UAL). The normal cost, based on the reduced benefits provided under Act 2010-120 is currently 3.9% of payroll. 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 new participants. However, the normal cost alone usually will not fund the System'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. Act 2003-40 changed the funding period for most, but not all, of SERS’ actuarial liabilities from 10 years to 30 years. This had the effect of temporarily suppressing rates for 10 years, enabling the Commonwealth to avoid making any payments toward the unfunded liability until 2012. Absent the rate suppression dictated by Act 40, the UAL would have been paid off incrementally over the entire 30-year amortization period. Instead, having postponed paying the UAL – or even the full employer normal cost – for 10 years, the UAL moved higher and would have to be paid over 20 years.

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

The downward trend in rate projections was sharply reversed, however, as a result of the 2008 investment losses, exacerbated by the fact that annual payouts for benefits and expenses far exceed annual employer and employee contributions. When investment earnings are strong, the Fund can grow even while paying out billions each year in benefits. When earnings are weak or negative, payouts reduce the Fund balance.

In 2010, projections showed the employer contribution rate spiking dramatically from 8% to 26.7% in FY 2012/13 then peaking at 29.3% of payroll in 2013/14. Passage of Act 2010-120 in late 2010 again provided funding relief to the Commonwealth, this time by instituting funding “collars” that cap year-to-year employer contribution rate increases; however, the funding changes were accompanied by benefit reductions for new members. The added costs associated with the funding collars are offset by the benefit reductions for all new employees, producing a net savings to the System of approximately \$1.5 billion through FY2043/44.

See the below *Additions and Deductions to Plan Net Assets* table. The table documents Chairman Maiale’s statement, in his cover letter accompanying this submission, that “Over the past 10 years, SERS has paid out more than \$19.5 billion in benefits and expenses, while investment income (including seven years of gains and three of losses) totaled \$12.3 billion. During that 10-year period, employer and employee contributions, combined, totaled \$4.8 billion (employees, \$3.1 billion; employers, \$1.7 billion), or just over a quarter of payouts.”

Additions and Deductions to Plan Net Assets

Calendar Years
(\$ millions)

Year	Employer Contributions	Employee Contributions	Total Contributions	Investment Earnings	Benefits and Expenses	Fair Value
2010 ^{1/}	\$273	\$349	\$622	\$2,650 ^{2/}	\$(2,474)	\$25,460
2009	253	349	602	3,561	(2,297)	24,662
2008	235	337	572	(11,061)	(2,231)	22,796
2007	244	334	578	5,246	(2,361)	35,516
2006	196	318	514	4,730	(1,943)	32,053
2005	148	306	454	3,623	(1,966)	28,752
2004	107	310	417	3,568	(1,880)	26,641
2003	68	308	376	4,936	(1,656)	24,536
2002	51	304	355	(2,731)	(1,450)	20,880
2001	77	240	317	(2,225)	(1,266)	24,706
10 Year Total	\$1,652	\$3,155	\$4,807	\$12,297	\$(19,524)	*

^{1/} 2010 figures are unaudited.

^{2/} Figure does not include 4th quarter earnings for Alternative Investments and Real Estate. Data was not yet available.

*Ten year net additions and deductions were \$(2,420).

Funding Process & Actuarial Status *(continued)*

While 2010 Fund earnings were positive and exceeded the assumed rate of return, those gains equaled only about a third of 2008's losses. The UAL which stood at \$5.6 billion as of December 31, 2009, is estimated to increase to \$10.4 billion as of December 31, 2010 (with the precise amount to be determined by the 2010 valuation) and is expected to grow as the 2008 loss is actuarially smoothed in. The statutory funding methodology requires that the severe shortfall be made up through future increases in the employer contribution rate.

Current projections show the employer contribution rate increasing steadily over the next six years to a peak of 28.1% of payroll in FY 2016/17 and then remaining above 20% through 2032/33. *See below table, SERS Projected Funded Status & Employer Contributions* for more detail. The 2010 valuation will result in updated projections but they are not expected to change materially.

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

Calendar Year	Payout Projection	Funding Status Projection		Fiscal Year	Employer Contribution Projection		
	Benefits & Expenses (\$ billions)	Funded Ratio	UAL (\$ billions)		Employer Contribution Rate	Expected FY Payroll (\$ millions)	Expected FY Contribution (\$ millions)
2009	\$2.3	84.4%	\$5.6	10/11	5.0%	\$5,936.0	\$296.8
2010	2.4	74.1	10.4	11/12	8.0	6,117.0	489.4
2011	2.6	68.7	13.1	12/13	11.5	6,303.6	724.9
2012	2.7	62.4	16.5	13/14	16.0	6,495.9	1,039.3
2013	2.9	62.6	17.1	14/15	20.5	6,694.0	1,372.3
2014	3.1	62.6	17.8	15/16	25.0	6,898.2	1,724.6
2015	3.2	63.2	18.2	16/17	28.1	7,108.5	1,998.4
2016	3.4	64.2	18.2	17/18	27.7	7,325.4	2,028.2
2017	3.5	65.5	18.0	18/19	27.1	7,548.8	2,044.4
2018	3.7	66.7	17.8	19/20	26.5	7,779.0	2,060.5
2019	3.9	67.9	17.5	20/21	25.9	8,016.3	2,076.6
2020	4.0	69.0	17.3	21/22	25.3	8,260.8	2,092.9
2021	4.1	70.2	17.0	22/23	24.8	8,512.7	2,109.5
2022	4.2	71.4	16.7	23/24	24.2	8,772.4	2,126.7
2023	4.3	72.6	16.3	24/25	23.7	9,039.9	2,144.3
2024	4.4	73.8	15.9	25/26	23.2	9,315.6	2,162.5
2025	4.5	75.0	15.5	26/27	22.7	9,599.8	2,181.3
2026	4.6	76.2	15.1	27/28	22.2	9,892.6	2,200.6
2027	4.7	77.5	14.6	28/29	21.8	10,194.3	2,220.5
2028	4.9	78.7	14.1	29/30	21.3	10,505.2	2,241.1
2029	5.0	80.0	13.5	30/31	20.9	10,825.6	2,262.3
2030	5.1	81.3	12.9	31/32	20.5	11,155.8	2,284.2
2031	5.2	82.7	12.2	32/33	20.1	11,496.1	2,306.8
2032	5.4	84.1	11.5	33/34	19.7	11,846.7	2,330.0
2033	5.5	85.5	10.6	34/35	19.3	12,208.0	2,354.0
2034	5.6	86.9	9.8	35/36	18.9	12,580.4	2,378.8

Funding Process & Actuarial Status *(continued)*

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

It is important to understand that the projected increase in employer contributions are due primarily to the existing unfunded liability - debt that has already been incurred and is an obligation of the Commonwealth. Because it is a debt that has already been incurred, the unfunded liability can't be eliminated by reducing future benefits. As the graph at right shows, employers would face a prolonged period of high contributions even if future employees received no retirement benefit.

Employer Contribution Provisions

- Employer contributions to SERS are required both to fund the employer normal cost and to amortize the UAL.
- The current 5% employer contribution rate is slightly more than the current employer normal cost for new members earning Act 2010-120's reduced benefit. The cost for most members is much higher.
- The employer contribution rate actually fell to zero for two years.
- The current statutory funding methodology uses collars to gradually increase the employer contribution rate over the next six years.
- The rate is expected to peak in FY 2016/17 at 28.1% of payroll.
- After peaking, rates are projected to remain above 20% through 2032/33.

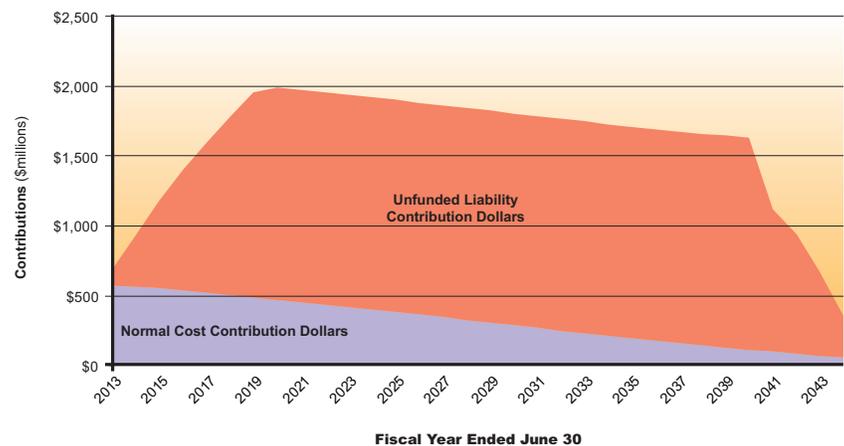
Among the many SERS benefit costs that the actuary values each year is the cost of the Retirement Code's Option 4. Under Option 4, a retiring SERS member may elect to receive a refund of all or part of that member's Accumulated Deductions (employee contributions plus 4% statutory interest) and receive a reduced annuity. Members who elect Option 4 receive a proportionally reduced benefit. Still, election of Option 4 increases the cost to the Fund because the refund is calculated at 4% interest whereas it is assumed that, if the Accumulated Deductions were left in the Fund, they would earn 8% interest. More than 90% of retirees choose the Option 4 refund. Act 2010-120 eliminated the option for new members, saving a projected \$1.7 billion through FY 2043/44.

Funding Source 3: Employee Contributions

The simplest component of the funding mechanism is employee contributions. Pursuant to the Code, SERS members pay a statutorily determined contribution rate. Most SERS members contribute to the Fund at the rate of 6.25% of their gross compensation. Commonwealth employees made approximately \$349 million in contributions in 2010.

Act 2010-120 included a provision that requires new members earning an Act-120 benefit to contribute an additional Shared Risk Contribution in the event of a sustained period of investment performance below the assumed rate. The Shared Risk Contribution, if any, will be established every three years beginning in 2014, never to increase by more than 0.5% in any three-year period and never to exceed 2%.

**SERS Employer Contribution Projections
Presuming Plan is Closed to New Members**



Funding Process & Actuarial Status *(continued)*

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

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

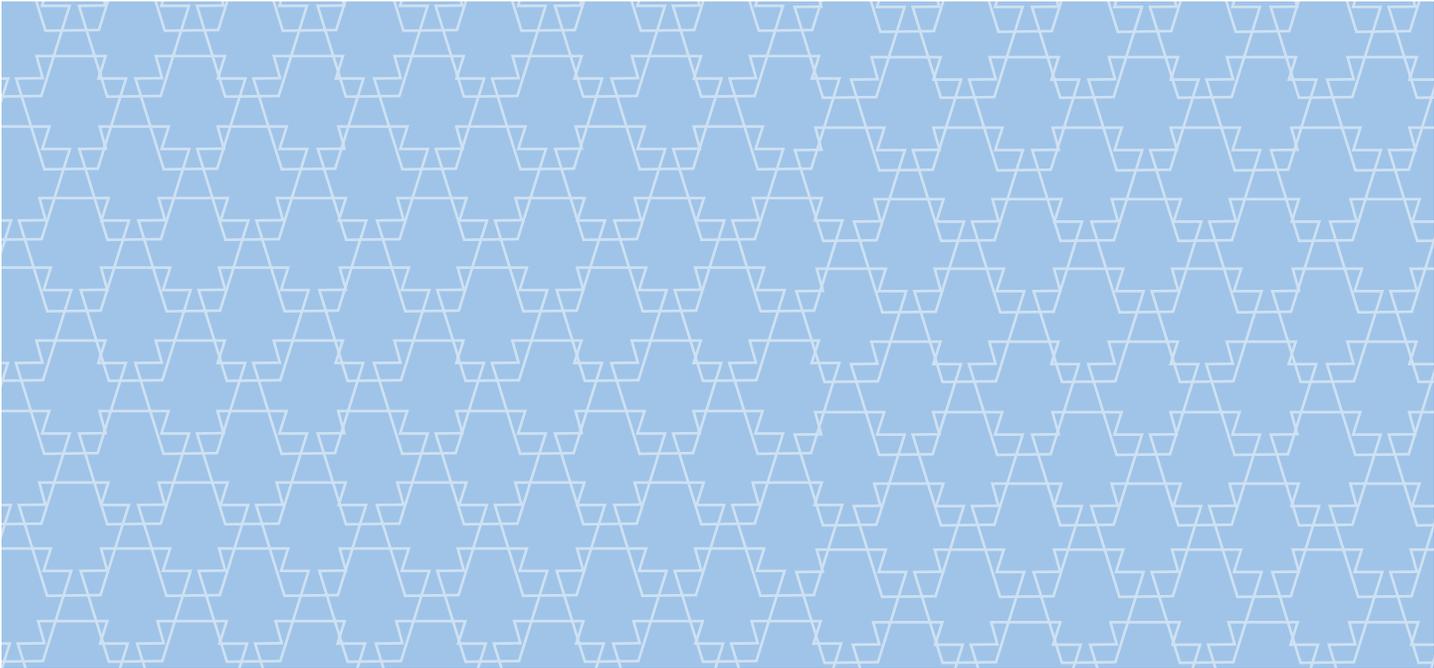
COLAs increase the Fund’s liabilities (as a result of the increases in benefits paid to members). However, the usual SERS funding mechanism does not provide a source from which to pay for the increased benefits. Therefore, when the actuary determines the cost of a COLA, the liability for the COLA is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

Funding of Supplemental Annuities

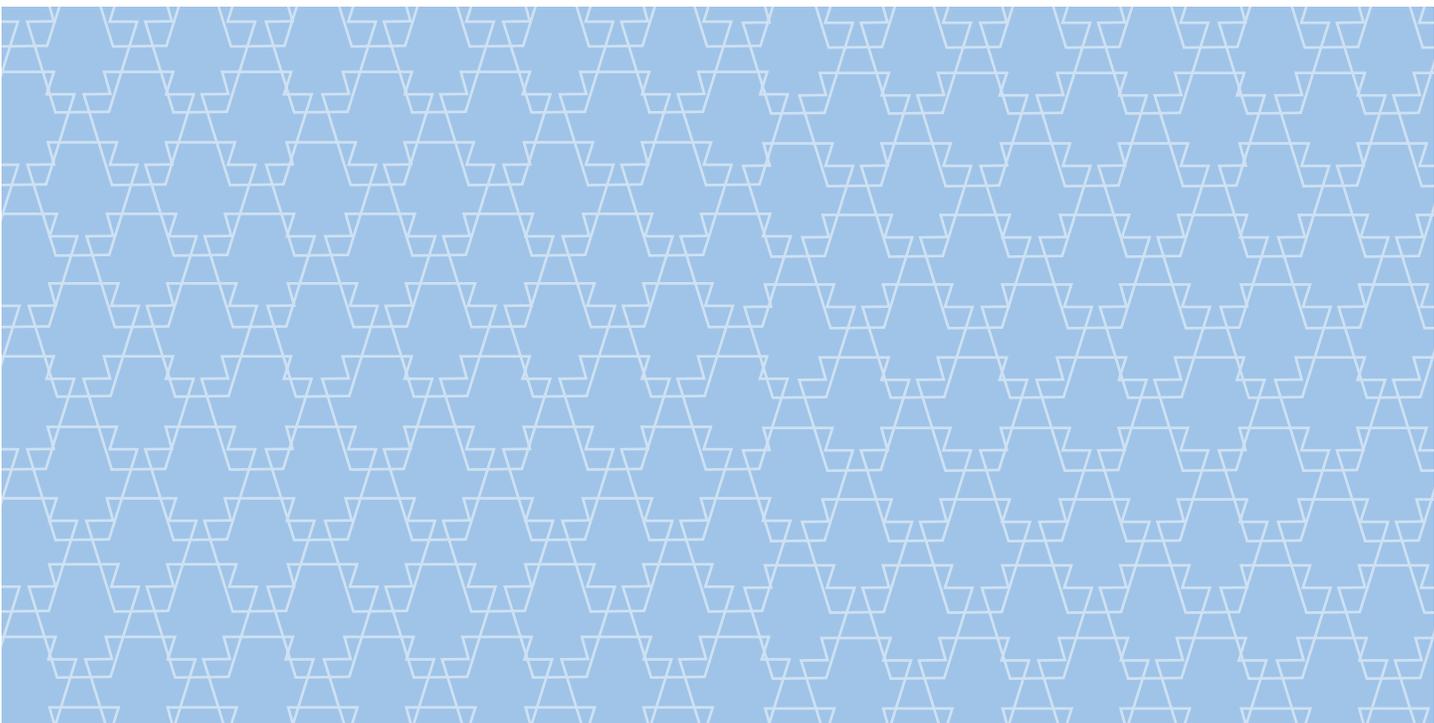
- Because the Retirement Code does not provide for automatic COLAs or the necessary funding, each new supplemental annuity must be legislated individually.
- Every supplemental annuity or COLA enacted since 1968 required an amendment to the Retirement Code and added a new liability to the Fund.

Benefits to Members

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



Investment Policy, Objectives and Performance 8



Investment Policy

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

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

Investment Objectives

To assure an adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth and to provide some protection against the erosion of principal by inflation, the long-term investment objectives for 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 System through investment earnings;
- Achieve in Global Stock a total return that exceeds the total return of the MSCI World Net Dividends Index;
- Achieve in U.S. Stock a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in Non-U.S. Stock a total return that exceeds the total return of the SERS Custom International Stock Benchmark;
- Achieve in the stand alone Absolute Return Strategy a total return that exceeds the 90 Day LIBOR + 300 bps;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Custom Fixed Income Benchmark;
- Achieve in the Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark;
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in Inflation Protection a total return that exceeds the total return of the SERS Custom Inflation Protection Benchmark;
- Achieve in the Cash asset class a total return that exceeds the total return on 3 Month T-bills;

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

Asset Allocation Trend

Prudent Investor Investment Standards

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

Total Fund Asset Allocation

SERS develops an annual strategic investment plan which provides direction for the SERS' investment program. The *2011 Annual Strategic Investment Plan* will be implemented over a period of five years. The Fund's asset allocation strategy will evolve over this timeframe until the long-term targets for each asset category are achieved by the end of the year 2015.

Asset Allocation (Unaudited)		
12/31/2010	Asset Class/Strategy	2015 Long-Term Strategic Asset Allocation
28.1%	Stocks	39.0%
24.9	Alternative Investments	15.0
9.0	Real Estate	8.0
15.1	Fixed Income	26.0
4.3	Inflation Protection	3.0
15.5	Absolute Return	9.0
3.1	Cash	0.0
100.0%		100.0%

*Numbers may not add due to rounding.

Estimated Investment Performance*

Calendar Year Basis

through December 31, 2010 (net of fees)

Asset Class/Strategy	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stock ^{1/}	18.2%	0.8%	N/A	N/A
<i>MSCI World Net Dividends Index</i>	11.8%	-4.9%	N/A	N/A
U.S. Stock	18.0%	-7.8%	0.5%	2.1%
<i>Russell 3000 Index</i>	16.9%	-2.0%	2.7%	2.2%
Non-U.S. Stock	13.5%	-8.7%	2.4%	5.0%
<i>SERS Custom International Stock Benchmark</i> ^{2/}	12.5%	-4.6%	5.1%	6.5%
Fixed Income	11.7%	6.7%	6.8%	7.1%
<i>SERS Custom Fixed Income Benchmark</i>	9.1%	7.6%	7.1%	6.9%
Absolute Return Strategy ^{3/}	6.3%	-0.6%	N/A	N/A
<i>90 Day LIBOR + 300 bps</i>	3.3%	3.4%	N/A	N/A
Cash	0.3%	1.4%	2.8%	2.6%
<i>3 Month T-Bills</i>	0.1%	0.8%	2.4%	2.4%
Real Estate ^{4/}	2.3%	-13.6%	-1.5%	5.6%
<i>Townsend Stylized Benchmark</i> ^{5/}	6.4%	-12.0%	-0.8%	5.0%
Private Equity ^{4/}	18.3%	1.3%	12.3%	10.4%
<i>Cambridge Private Equity Benchmark</i>	18.0%	0.9%	10.4%	8.6%
Venture Capital ^{4/}	8.3%	-2.7%	3.3%	-6.8%
<i>Cambridge Venture Capital Benchmark</i>	6.0%	-3.0%	3.7%	-7.9%
Inflation Protection ^{6/}	19.9%	0.9%	4.8%	N/A
<i>SERS Custom Inflation Protection Benchmark</i>	13.8%	-3.9%	0.7%	N/A
Total Fund	11.9%	-4.5%	3.5%	4.8%
Total Fund Benchmark	11.3%	-0.5%	5.5%	5.4%

*Returns for periods longer than one year are annualized.

^{1/} Global Stock was initially funded in November 2006.

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

^{3/} Absolute Return was initially funded in August 2007.

^{4/} Results for the Real Estate, Private Equity, Venture Capital and benchmarks are lagged one quarter.

^{5/} The private real estate component of the Townsend Stylized Benchmark is net of fees. The public real estate and timber components are before fees.

^{6/} Inflation Protection was initially funded in November 2001.

Investment Performance*

Commonwealth Fiscal Year Basis

through June 30, 2010 (net of fees)

Asset Class/Strategy	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stock ^{1/}	18.8%	-5.7%	N/A	N/A
<i>MSCI World Net Dividends Index</i>	10.2%	-11.5%	N/A	N/A
U.S. Stock	15.5%	-14.6%	-2.4%	-1.0%
<i>Russell 3000 Index</i>	15.7%	-9.5%	-0.5%	-0.9%
Non-U.S. Stock	14.3%	-14.5%	1.1%	1.8%
<i>SERS Custom International Stock Benchmark</i> ^{2/}	11.5%	-10.8%	3.9%	2.9%
Fixed Income	21.7%	5.8%	5.9%	6.9%
<i>SERS Custom Fixed Income Benchmark</i>	16.8%	7.4%	6.5%	6.8%
Absolute Return Strategy ^{3/}	9.0%	N/A	N/A	N/A
<i>90 Day LIBOR + 300 bps</i>	3.3%	N/A	N/A	N/A
Cash	0.3%	2.2%	3.2%	2.9%
<i>3 Month T-bills</i>	0.2%	1.6%	2.8%	2.7%
Real Estate ^{4/}	-12.0%	-12.4%	1.1%	5.8%
<i>Townsend Stylized Benchmark</i>	-0.9%	-5.7%	4.6%	7.9%
Private Equity ^{4/}	29.1%	4.6%	14.4%	9.1%
<i>Cambridge Private Equity Benchmark</i>	22.5%	1.7%	12.2%	7.7%
Venture Capital ^{4/}	6.5%	-1.3%	3.9%	-6.7%
<i>Cambridge Venture Capital Benchmark</i>	5.1%	-1.4%	4.7%	-6.8%
Inflation Protection ^{5/}	4.4%	-2.0%	1.5%	N/A
<i>SERS Custom Inflation Protection Benchmark</i>	1.6%	-6.5%	-2.1%	N/A
Total Fund	12.6%	-6.3%	3.3%	3.3%
Total Fund Benchmark	14.7%	-2.5%	5.2%	3.8%

*Returns for periods longer than one year are annualized.

^{1/} Global Stock was initially funded in November 2006.

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

^{3/} Absolute Return was initially funded in August 2007.

^{4/} Results for the Real Estate, Private Equity, Venture Capital and benchmarks are lagged one quarter.

^{5/} Inflation Protection was initially funded in November of 2001.

Investment-Related Statistics

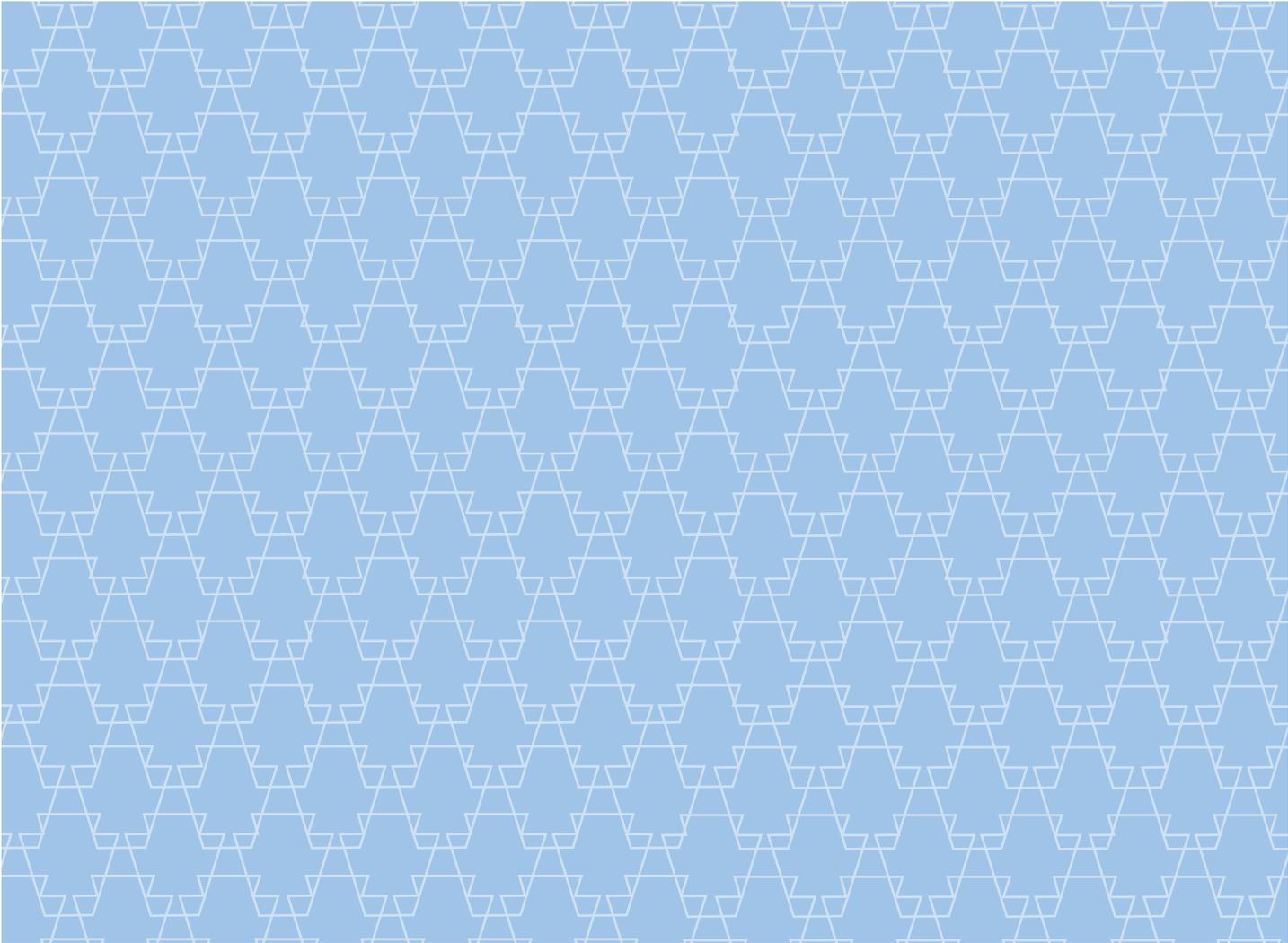
SERS Investment-Related Statistics Calendar Year 1980 through 2010 (Unaudited)

Year End	SERS Fund Fair Value (\$ millions) ^{1/}	Annual Total Fund Rate of Return
1980	\$2,689	5.3%
1981	2,817	0.9%
1982	3,730	27.8%
1983	4,396	13.0%
1984	4,922	9.4%
1985	6,157	23.1%
1986	7,120	15.2%
1987	7,367	3.3%
1988	8,312	12.8%
1989	9,785	17.8%
1990	9,886	1.0%
1991	11,940	22.6%
1992	12,453	7.4%
1993	13,701	13.2%
1994	13,330	- 1.1%
1995	16,343	25.2%
1996	18,492	15.9%
1997	21,312	18.0%
1998	24,123	16.3%
1999	28,093	19.9%
2000	27,880	2.2%
2001	24,706	-7.9%
2002	20,880	-10.9%
2003	24,536	24.3%
2004	26,641	15.1%
2005	28,752	14.5%
2006	32,053	16.4%
2007	35,516	17.2%
2008	22,796	-28.7%
2009	24,662	9.1%
2010 ^{2/}	25,460 ^{3/}	11.9%

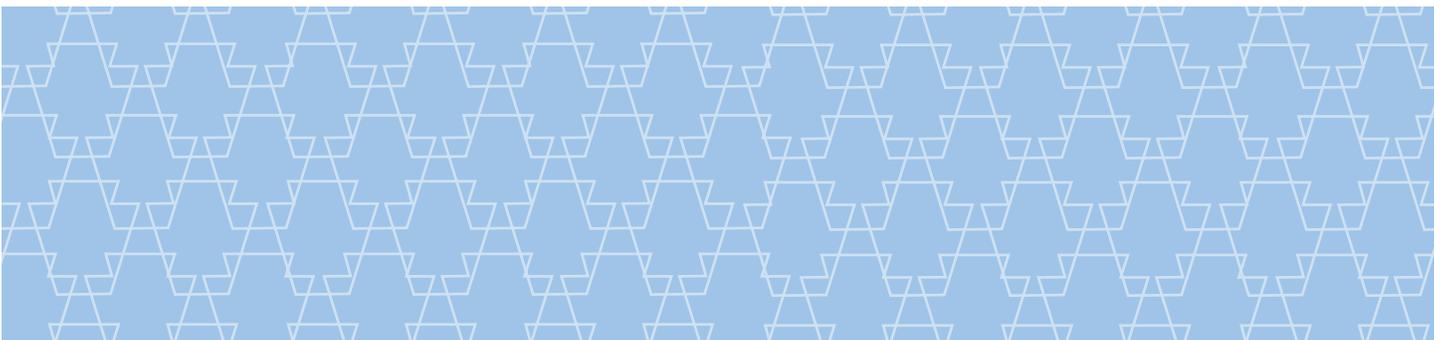
^{1/} Fair values for Real Estate and Alternative Investments are lagged by one quarter adjusted for allocations and distributions. Fair values also include non-investment receivables and payables.

^{2/} 2010 values are estimated.

^{3/} Fund fair values for Real Estate and Alternative Investments are lagged by one quarter adjusted for allocations and distributions since 4th quarter values were not available for those asset classes at the time of print.



Investment Program Summary 9



Investment Program Summary

as of December 31, 2010 - (Unaudited)

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

Market Exposure as of December 31, 2010: SERS' assets had an unaudited market exposure of approximately \$25.5 billion.

SERS Asset Allocation

Asset Class/Strategy	Market Exposure* (Unaudited)		2010 Target Allocation
	(\$ millions)	%	
Global Stock	\$983.0	3.9%	5.0%
U.S. Stock	2,845.2	11.2	11.5
Non-U.S. Stock	3,308.8	13.0	19.0
Alternative Investments	6,347.3	24.9	12.0
Real Estate	2,299.1	9.0	7.0
Fixed Income	3,852.5	15.1	32.5
Inflation Protection	1,096.2	4.3	4.0
Absolute Return	3,942.2	15.5	9.0
Cash	785.5	3.1	0.0
Total Fund	\$25,459.7	100.0%	100.0%

**Numbers may not add due to rounding.*

Number of Investment Advisors: SERS had many investment advisors managing multiple portfolios across asset classes.

- 2 Global Stock advisors
- 6 U.S. Stock advisors
- 7 Non-U.S. Stock advisors
- 6 Absolute Return advisors
- 15 Fixed Income advisors
- 1 Cash advisor
- 2 Inflation Protection advisors
- 26 Real Estate advisors
- 56 Venture Capital general partners managing limited partnerships
- 90 Private Equity general partners managing limited partnerships

Global Stock Investments Summary

as of December 31, 2010 - (Unaudited)

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

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

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

SERS' 2010 Annual Strategic Investment Plan targets an allocation of 5.0% of Fund assets to global stocks.

Market Exposure as of December 31, 2010: Global Stock had a \$983.0 million market exposure, 3.9% of the total Fund's \$25.5 billion.

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

Type of Investment Portfolios: As of December 31, 2010, SERS Global Stock allocation was invested in large/mid-capitalization strategies.

SERS Global Stock Investments

Global Stock Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
1. Walter Scott & Partners	Growth	\$463.9
2. Marathon-London Global Fund	Contrarian sector relative value	519.1
Total Global Stock Investments		\$983.0

*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, 2010 - (Unaudited)

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

Investment Objective: Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The 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 may 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).

SERS' *2010 Annual Strategic Investment Plan* targets a long-term allocation of 11.5% of assets to U.S. Stock: 9.2% of the Fund to large cap and 2.3% of the Fund to mid/small cap, approximating the composition of the Russell 3000 Index.

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

Market Exposure as of December 31, 2010: U.S. Stock had a \$2.8 billion market exposure, 11.2% of the total Fund's \$25.5 billion.

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

Type of Investment Portfolios: As of December 31, 2010, 1.8% of the total Fund was in all cap, 6.7% in large cap U.S. stocks, and 2.7% in mid/small cap U.S. stocks.

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

SERS U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
All cap		
1. BlackRock/Russell 3000 Index Non-Lendable Fund	Russell 3000 Index	\$448.1
Large cap		
2. Robeco Sage Capital	Fund-of-Hedge Funds	1.6
BlackRock/Equity Index Non-Lendable Fund-S&P 500	S&P 500 Index	1,539.8
BlackRock/Alpha Tilts Fund-S&P 500	Enhanced S&P 500 Index	157.0
Mid/small cap		
3. Iridian Asset Management	Midcap private business value	203.4
4. Emerald Advisors	Pennsylvania companies	293.5
5. Mellon Capital Management Corporation	Pennsylvania companies	170.2
6. Turner Investment Partners	Quantitative microcap growth	31.6
Total U.S. Stock Investments		\$2,845.2

*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, 2010 - (Unaudited)

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

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

SERS' long-term investment objective for the Non-U.S. Stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom International Stock Benchmark (65.5% MSCI EAFE IMI / 34.5% MSCI Emerging Markets Index standard).

SERS' *2010 Annual Strategic Investment Plan* targets a long-term allocation of 19.0% of assets to non-U.S. stocks: 9.7% of the Fund to large/mid cap stocks in developed markets, 1.8% of the Fund to small cap stocks in developed markets, and 7.5% of the Fund to stocks in emerging markets.

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

Market Exposure as of December 31, 2010: Non-U.S. Stock had a \$3.3 billion market exposure which was 13.0% of the total Fund's \$25.5 billion.

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

Type of Investment Portfolios: As of December 31, 2010, 6.8% of the total Fund was allocated to large/mid cap stocks in non-U.S. developed markets; 1.7% to small cap stocks in non-U.S. developed markets; and 4.6% to emerging markets.

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

SERS Non-U.S. Stock Investments

Non-U.S. Stock Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
Large/mid cap		
1. BlackRock/MSCI ACWI ex-U.S. Index Non-Lendable Fund	MSCI ACWI ex-U.S. Index	\$981.2
2. Artisan Partners	Global ex-U.S. growth	300.8
3. Templeton Investment Counsel	Global ex-U.S. value	333.7
4. Morgan Stanley Investment Management	EAFE value	338.9
Small cap		
5. Pictet Asset Management	Value with growth	164.2
6. Harris Associates	Intrinsic value	260.2
Emerging markets		
BlackRock/Emerging Markets Index Non-Lendable Fund	MSCI Emerging Markets Index	414.0
7. Rexiter Capital Management	Core	209.2
Pictet Asset Management	Value	188.8
Templeton Strategic Emerging Markets Fund II	Private placements with public companies	49.0
Templeton Strategic Emerging Markets Fund III	Private placements with public companies	68.6
Total Non-U.S. Stock Investments		\$3,308.8

*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, 2010 - (Unaudited)

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

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

SERS' long-term investment objective for the Absolute Return Strategies is to achieve a total return, net-of-fees, that exceeds 90 Day LIBOR + 300 bps.

SERS' 2010 Annual Strategic Investment Plan targets a long-term allocation of 9.0% of Fund assets to Absolute Return Strategies.

Market Exposure as of December 31, 2010: Absolute Return Strategies had a \$3.9 billion market exposure, 15.5% of the total Fund's \$25.5 billion.

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

Type of Investment Portfolios: As of December 31, 2010, SERS' Absolute Return Strategies were diversified through many strategies and sub-strategies.

SERS Absolute Return Strategies Investments

Absolute Return Strategies Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
1. Arden	Absolute Return	\$245.0
2. Blackstone Alternative Asset Management	Absolute Return	1,229.2
3. Mesirow	Absolute Return	637.7
4. Morgan Stanley Alternative Investment Partners	Absolute Return	400.9
5. Pacific Alternative Asset Management Company	Absolute Return	1,135.5
6. Rock Creek	Absolute Return	294.0
Total Absolute Return Strategies		\$3,942.2

*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, 2010 - (Unaudited)

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

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

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

SERS' *2010 Annual Strategic Investment Plan* targets a long-term allocation of 32.5% of assets of the total Fund to the Fixed Income asset class. Of this amount, 40.0% is targeted to the core strategies and 60.0% to specialty strategies (high-yield and emerging market debt).

Market Exposure as of December 31, 2010: Fixed Income had a \$3.9 billion market exposure, 15.1% of the total Fund's \$25.5 billion.

Number of Investment Advisors: SERS had contracts with 15 external investment advisors.

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

Core: Core portfolios invest in relatively liquid, high quality, fixed income securities with intermediate term durations that meet return, disinflation/deflation, high quality liquidity and diversification needs of the Fund. SERS had five actively managed core bond portfolios; one Custom Intermediate Duration Treasury Inflation Protected (TIPS) portfolio, one global core portfolio, and three portfolios indexed to Barclay's Capital Aggregate Index. The five actively managed core portfolios totaled \$1,716.4 million. In addition, SERS had one \$99.4 million passively managed account benchmarked to the Barclay's Capital Aggregate Index, and one portfolio of \$1.2 million in liquidation. The combination of core portfolios represented 47.2% of the asset class.

Specialty: The specialty strategy portfolios (high-yield, emerging market debt, subordinated debt, mezzanine debt, and bank loan structured credit) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS had four corporate high yield portfolios with a market exposure of \$653.5 million, one high yield commercial mortgage-backed securities portfolio with a market exposure of \$317.2 million, one structured credit portfolio with a market exposure of \$88.3 million, and five emerging market debt portfolios with a market exposure of \$976.5 million. The specialty portfolios represent 52.8% of the asset class.

Fixed Income Investments Summary *(continued)*

SERS Fixed Income Investments

Fixed Income Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
Core		
1. Dreyfus (Formerly Standish Mellon)	Domestic - Index	\$99.4
BNY Mellon	Liquidation Account	1.2
2. Taplin, Canida & Habacht	Active Domestic	156.2
3. NISA Investment Advisors	Active Intermediate Duration TIPS	1,266.1
4. Ramius Advisors	Active Domestic	103.3
5. WaterfallAsset Management	Active Domestic	115.8
6. Franklin Templeton	Active Global	75.0
Specialty		
7. Berwind - PA Capital Fund	PA Capital Fund (inactive)	2.4
8. Pyramis Global Advisors	Commercial Mortgage-backed Securities	317.2
9. Oaktree Capital Management	Mezzanine Fund (liquidating)	0.7
10. Stone Harbor	Global High Yield	605.5
Stone Harbor	Emerging Market Debt	296.2
11. Ashmore AEMDF	Emerging Market Debt - U.S. dollars	174.1
Ashmore LCD	Emerging Market Debt - local currency	198.4
12. W.R. Huff	High Yield (liquidating)	45.0
13. SEI Structured Credit Fund	High Yield Bank Loans	88.3
14. Greylock Capital Management	Emerging Market Debt - Absolute Return (liquidating)	30.0
15. PIMCO	Emerging Market Debt	277.8
Total Fixed Income Investments		\$3,852.5

*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, 2010 - (Unaudited)

Cash is one of six asset classes that SERS uses to diversify the investments of the Fund. Historically, the Cash asset class has been employed by the System to provide for SERS' liquidity needs as well as accumulate funds for future investment.

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

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

Cash payments to meet the Fund's benefit payments and other obligations are sourced through employee and employer contributions, limited partnership distributions, and raising cash from public market managers from time to time. Contributions are a predictable source of cash flow, but are inadequate to meet continuing benefit obligations. Distributions from limited partnerships are unpredictable and dependent on market conditions and terms of partnership agreements.

Accordingly, raising cash from public market equity, fixed income, and fund-of-hedge funds managers is required to meet monthly cash flow requirements.

In the Cash asset class, SERS' long-term investment objectives are to achieve a total return, net of fees, that exceeds the total return on 3 Month T-bills.

Market Exposure as of December 31, 2010: The effective cash exposure was \$785.5 million or 3.1% of the total Fund's \$25.5 billion.

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

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

In the aggregate, the State Treasury managed approximately \$928.9 million on behalf of SERS and SERS' external investment advisors as of December 31, 2010.

Real Estate Investments Summary

as of December 31, 2010 - (Unaudited)

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

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

In the Real Estate asset class, SERS' long-term investment objective is to achieve a total net return that exceeds the total return of the Townsend Stylized Benchmark for rolling five year periods. SERS' *2010 Annual Strategic Investment Plan* targets a long-term allocation of 7.0% of assets to the Real Estate asset class.

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

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

Fair Value as of December 31, 2010: Real Estate had \$2.3 billion fair value, 9.0% of the total Fund's \$25.5 billion.

Number of Investment Advisors: SERS had contracts with 26 external investment advisors to manage Real Estate portfolios as of December 31, 2010.

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

- 36% pooled funds, 64% separate accounts
- 21% office, 3% industrial, 9% retail, 24% multifamily, 14% hotel, 9% timber, 20% other (including senior and student housing, land and various niche property investments)
- 12% Pennsylvania, 31% East excluding PA, 26% West, 13% South, 4% Midwest, 14% International
- 22% of the fair value of the separate accounts was invested in 17 investments located in Pennsylvania

Real Estate Investments Summary *(continued)*

SERS Real Estate Investments

Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value as of 9/30/10* (\$ millions)
1. AG Asia Realty Fund	2007	Diversified	Limited Partnership	\$19.0
2. Apollo Real Estate Fund III	1998	Diversified	Limited Partnership	7.9
3. Berwind Investment Partnership V	1999	Diversified	Limited Partnership	9.0
Berwind Investment Partnership VI	2002	Diversified	Limited Partnership	7.9
Berwind Investment Partnership VII	2005	Diversified	Limited Partnership	10.1
Berwind Investment Partnership VIII	2007	Diversified	Limited Partnership	8.0
4. Blackstone Real Estate Partners III	1999	Diversified	Limited Partnership	0.5
Blackstone Real Estate Partners IV	2003	Diversified	Limited Partnership	14.3
Blackstone Real Estate Partners V	2006	Diversified	Limited Partnership	36.1
Blackstone Real Estate Partners VI	2007	Diversified	Limited Partnership	38.3
5. Clerestory Small Cap Fund I	2007	Diversified	Limited Partnership	4.6
6. Colony Investors VIII	2007	Diversified	Limited Partnership	9.4
7. Fidelity Real Estate Opportunistic Income Fund	2007	Debt	Limited Partnership	37.0
8. Fillmore East Fund	2005	Debt	Limited Partnership	6.6
Fillmore West Fund	2008	Debt	Limited Partnership	11.6
9. Forest I.M.A.	1992	Timber	Separate Account	192.6
10. Goldman Sachs Whitehall V & VI	1994	Diversified	Limited Partnership	0.2
Goldman Sachs Whitehall VII & VIII	1996	Diversified	Limited Partnership	0.4
11. Grosvenor I.M.A.	1994	Diversified	Separate Account	267.4
Grosvenor Residential Investment Partners I	2007	Residential	Limited Partnership	3.8
12. Hawkeye Scout Fund I	2006	Diversified	Limited Partnership	39.1
13. Heitman America Real Estate Trust	2007	Diversified	Limited Partnership	75.4
Heitman I.M.A.	1988	Diversified	Separate Account	51.5
14. ING Clarion Real Estate Securities	1996	REITs	Separate Account	280.2
15. LaSalle I.M.A.	1994	Diversified	Separate Account	216.2
16. Lowe I.M.A.	1994	Diversified	Separate Account	408.7
17. Lubert Adler Fund II	1998	Diversified	Limited Partnership	0.0
Lubert Adler Fund III	2000	Diversified	Limited Partnership	1.0
Lubert Adler Fund IV	2004	Diversified	Limited Partnership	5.8
Lubert Adler Fund V	2006	Diversified	Limited Partnership	13.3
Lubert Adler Fund VI	2008	Diversified	Limited Partnership	8.3
Lubert Adler Fund VI-A	2010	Diversified	Limited Partnership	0.4
18. OCM Real Estate Opp Fund A	1996	Diversified	Limited Partnership	1.3
OCM Real Estate Opp Fund II	1998	Diversified	Limited Partnership	0.9
OCM Real Estate Opp Fund III	2003	Diversified	Limited Partnership	16.1
19. The Oxford Fund	2006	Diversified	Limited Partnership	21.7

Real Estate Investments Summary *(continued)*

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value as of 9/30/10* (\$ millions)
20.	Prudential Latin America Residential Fund III	2007	Residential	Limited Partnership	\$21.0
	Prudential Latin America Retail Fund I	2006	Retail	Limited Partnership	24.7
	Prudential Senior Housing Fund II	2001	Senior housing	Limited Partnership	13.1
	Prudential Senior Housing Fund III	2006	Senior housing	Limited Partnership	24.6
21.	Rockpoint Finance Fund I	2006	Diversified	Limited Partnership	1.8
	Rockpoint Real Estate Fund I	2004	Diversified	Limited Partnership	2.9
	Rockpoint Real Estate Fund II	2005	Diversified	Limited Partnership	9.7
	Rockpoint Real Estate Fund III	2007	Diversified	Limited Partnership	15.2
22.	Sentinel Real Estate Fund	1986	Residential	Open-Ended Fund	47.3
23.	Starwood Fund IV	1997	Diversified	Limited Partnership	1.0
	Starwood Fund V	1999	Diversified	Limited Partnership	1.2
	Starwood Fund VI	2001	Diversified	Limited Partnership	17.3
	Starwood Fund VII	2005	Diversified	Limited Partnership	22.6
	Starwood Fund VIII	2007	Diversified	Limited Partnership	22.2
24.	UBS Multi-Family Trust	1999	Residential	Limited Partnership	0.3
	UBS Trumbull Property Fund	1988	Diversified	Open-Ended Fund	68.3
	UBS Trumbull Property Income Fund	1988	Diversified	Open-Ended Fund	63.5
25.	Urdang Real Estate Securities	2002	REITs	Separate Account	52.4
26.	Westbrook Fund II	1997	Diversified	Limited Partnership	1.4
	Westbrook Fund III	1998	Diversified	Limited Partnership	2.7
	Westbrook Fund IV	2000	Diversified	Limited Partnership	0.1
	Westbrook Fund V	2004	Diversified	Limited Partnership	1.2
	Westbrook Fund VI	2005	Diversified	Limited Partnership	10.0
	Westbrook Fund VII	2006	Diversified	Limited Partnership	32.2
	Westbrook Fund VIII	2009	Diversified	Limited Partnership	2.0
September 30, 2010 Real Estate Total					2,283.3
Fourth Quarter Net Cash Flow Adjustment					15.8
December 31, 2010 Real Estate Total					\$2,299.1

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

Alternative Investments Summary

as of December 31, 2010 - (Unaudited)

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

Venture Capital and Private Equity Defined

Venture Capital is the financing of young, rapidly growing companies, typically at three stages of development: (1) seed and early stage, (2) late and later stage, and (3) growth or expansion stage. Seed financing supports companies in their conceptual phase, when 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. For instance, when a product has been developed and may have been shipped to customers for testing, and when management positions have been filled and an operating team is in place. Late and later stage financing supports companies that have proven revenues, and are in the process of rolling out operations and building sales to achieve profitability. Growth or expansion stage financing supports profitable or nearly profitable businesses that, lacking access to significant debt financing, need capital for growth and expansion. Companies at either the later stage, or growth or expansion stage may be nearing a strategic sale to another company or an initial public offering.

Private Equity primarily refers to investments in the equity and subordinated debt of established companies. Private equity approaches undertaken by SERS' limited partnerships include three types: (1) Leveraged buyouts and management buyouts, (2) Distressed debt investing, and (3) Secondary interests in established private equity funds. Leveraged buyouts and management buyouts involve companies 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. Distressed debt investing involves: deleveraging debt-laden but successful companies, by infusing capital to permit debt reduction in exchange for an equity stake in the company; or acquiring the 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. Secondary interests in established private equity funds are purchased from other investors who seek liquidity or desire to realign or rebalance their investment portfolios, often for non-financial reasons. Such partnership interests can be purchased at significant discounts to net asset value and often occur when the acquired partnerships begin to realize profits.

Investment Objective: SERS' long term investment objective for Alternative Investments is to achieve a risk-adjusted total return, net of fees, in excess of the return generated by the Cambridge Private Equity Benchmark and the Cambridge Venture Capital Benchmark for respective holdings. SERS' *2010 Annual Strategic Investment Plan* anticipates an Alternative Investment long-term allocation range with a midpoint of 12.0%.

Fair Value as of December 31, 2010: Alternative Investments had \$6.3 billion fair value, 24.9% of the total Fund's \$25.5 billion. Sub-asset class fair values and fund percentages were as follows:

SERS Alternative Investments

	Unfunded Commitments (\$ millions)	Fair Value (\$ millions)	Percent of Total Fund
Venture Capital	\$535.7	\$1,518.6	5.9%
Private Equity	1,818.7	4,828.7	19.0
Total Alternative Investments	\$2,354.4	\$6,347.3	24.9%

Number of Limited Partnerships: As of December 31, 2010, SERS had commitments to 351 active Alternative Investments limited partnerships, 120 to Venture Capital partnerships and 231 to Private Equity partnerships.

Alternative Investments Summary *(continued)*

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

The Private Equity Program invests in buyout, distressed, international, and secondary oriented partnerships. Buyout transactions are privately negotiated or result from investment bank sponsored auctions, and are usually completed with present management in place; hostile acquisitions are generally avoided. Distressed investment managers employ differentiated strategies, i.e., they employ control or non-control approaches, and accordingly, have differing degrees of active influence over the companies in which they invest. European funds are attempting to capitalize on trends favoring the restructuring of large companies, generational succession in businesses established after World War II, cross-border business opportunities within the region since the formation of the European 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 fund-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, 2010, based on fair value, the Program's exposure was as follows:

By Fund Sub Sector:

U.S. Private Equity	41.2%
U.S. Venture Capital	21.9%
Non-U.S. ^{1/}	18.1%
Distressed/Oppportunistic	11.5%
Pennsylvania Related	5.1%
Other	2.2%

By Fund Style:

LBO	42.4%
Expansion Stage	18.6%
Early Stage	8.7%
Start-Up	6.9%
Acquisition/Platform	6.6%
Senior Debt LBO	4.5%
Other	12.3%

By Portfolio Company Geography:

U.S. Northeast	13.3%
U.S. West Coast	13.1%
U.S. Southwest/Rockies	11.2%
U.S. Southeast	10.1%
U.S. Midwest	9.2%
U.S. Mid-Atlantic	8.6%
U.S. Northwest	1.8%
United Kingdom	6.1%
Denmark	3.1%
Germany	3.0%
Canada	2.1%
Italy	1.8%
China	1.7%
Rest of World	14.9%

By Portfolio Company Industry:

Consumer/Retail & Services	21.8%
Healthcare	20.2%
Information Technology	13.1%
Financial Services	8.6%
Software	8.0%
Manufacturing	7.3%
Energy	5.9%
Media/Communications	5.6%
Electronics	2.5%
Other	7.0%

^{1/} Some managers with a domestic investment focus may invest globally. Thus, Non-U.S. exposure measured on a portfolio company basis will be greater.

Venture Capital Committed, Drawn and Distributed

as of September 30, 2010 - (Unaudited)

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

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. ABS Capital Partners VI	Later Stage	3/13/2009	\$40,000,000	\$19,398,203	\$0
2. Adams Capital Management II	Early Stage	10/1/1999	30,000,000	30,000,000	2,600,000
Adams Capital Management III	Early Stage	11/21/2000	30,000,000	30,000,000	4,761,905
3. Advanced Technology Ventures VI	Multi-Stage	3/9/2000	10,000,000	10,000,000	240,896
Advanced Technology Ventures VII	Multi-Stage	7/11/2001	27,000,000	25,784,700	7,183,099
4. Alloy Ventures 2000	Early Stage	5/19/2000	20,000,000	20,000,000	2,674,620
Alloy Ventures 2002	Early Stage	7/22/2002	25,000,000	24,500,000	5,604,706
Alloy Ventures 2005	Seed/Early Stage	8/11/2005	25,000,000	20,750,000	0
Alloy Annex I	Seed/Early Stage	10/31/2003	5,000,000	4,500,000	0
5. Apax Excelsior VI	Later Stage	7/3/2000	35,000,000	34,151,324	43,823,343
P/A Fund I	Later Stage	6/30/1993	30,000,000	30,000,000	66,195,539
P/A Fund III	Later Stage	3/31/1997	100,000,000	100,000,000	161,557,955
6. APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,748,664	2,303,927
APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	20,504,254	4,343,666
7. Artiman Ventures II	Seed/Early Stage	10/27/2006	25,000,000	15,250,000	0
Artiman Ventures III	Seed/Early Stage	8/9/2010	20,000,000	700,000	0
8. Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,809,496	8,042,039
Atlas Venture Fund V	Early Stage	2/7/2000	37,200,000	37,200,000	15,692,363
Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	24,800,000	4,386,035
9. Austin Ventures VIII	Early Stage	7/26/2001	20,932,140	21,100,362	5,988,820
Austin Ventures IX	Early Stage	1/9/2006	15,000,000	10,985,304	881,830
10. Battery Ventures VIII	Diversified	8/13/2007	25,000,000	20,078,333	0
11. Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	8,575,344	2,826,252
12. Care Capital Investments III	Middle/Later Stage	2/8/2006	25,000,000	10,944,770	78,203
13. Charles River Partnership XI	Early Stage	2/15/2001	11,032,259	10,651,996	14,084,889
14. Clearstone Venture Partners III-A	Early/Late Stage	12/22/2004	25,000,000	23,000,000	0
15. Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	20,149,041	19,244,925
Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,900,000	18,871,600
Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	2,370,430
16. Devon Park Bioventures	Early/Late Stage	12/15/2006	10,842,697	4,873,172	701,849
17. Draper Fisher Jurvetson Fund VI	Early Stage	8/13/1999	8,000,000	8,000,000	3,528,600
Draper Fisher Jurvetson Fund VII	Early Stage	9/22/2000	20,000,000	20,000,000	3,178,088
18. Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	19,852,039	4,648,414
Draper Triangle Ventures II	Early Stage	10/13/2004	12,000,000	10,034,221	0
19. Fairview Capital I	Fund of Funds	9/30/1994	10,000,000	10,000,000	4,543,128
Fairview Capital II	Fund of Funds	3/31/1998	10,000,000	9,850,000	2,973,017

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

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
20. Frazier Healthcare III	Early Stage	3/31/1999	\$30,000,000	\$29,925,000	\$10,090,022
Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	28,905,000	10,792,055
Frazier Healthcare V	Early/Late Stage	5/10/2005	30,000,000	24,780,000	4,595,747
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	24,521,934
22. Guggenheim Technology Ventures I	Early/Late Stage	11/17/2008	2,000,000	1,160,000	297,134
23. Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	24,875,000	20,599,764
24. HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	191,586,055	111,458,811
HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	61,875,000	6,125,625
HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	56,000,000	0
25. Healthcare Ventures III	Early Stage	9/30/1992	15,000,000	15,000,000	30,963,669
Healthcare Ventures V	Early Stage	12/31/1997	25,000,000	25,000,000	52,285,824
Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	35,000,000	3,462,611
Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	32,287,500	2,165,418
Healthcare Ventures VIII	Early Stage	8/22/2005	30,000,000	17,475,000	3,520,547
26. Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	25,000,000	22,043,834
Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	23,712,500	3,547,906
Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	13,763,199	0
27. IP II	Early Stage	12/17/2001	8,600,000	8,498,074	1,126,082
IP III	Seed/Early Stage	11/19/2004	10,500,000	8,820,000	1,453,417
IP IV	Seed/Early Stage	9/21/2007	14,000,000	5,180,000	0
28. Insight Venture Partners VI	Buyouts	8/21/2007	30,000,000	22,440,000	0
29. InterWest Partners VIII	Early Stage	8/25/2000	25,000,000	25,000,000	7,990,495
InterWest Partners IX	Early Stage	10/19/2005	20,000,000	15,000,000	1,106,563
InterWest Partners X	Early Stage	10/30/2008	30,000,000	6,000,000	0
30. J.H. Whitney III	Later Stage	3/31/1998	20,000,000	20,171,316	50,600,435
J.H. Whitney IV	Later Stage	2/1/2000	20,000,000	17,958,772	6,867,894
31. JMI Equity Fund V	Early/Late Stage	6/7/2005	24,000,000	22,157,205	18,308,789
JMI Equity Fund VI	Early/Late Stage	6/27/2007	40,000,000	28,160,000	0
JMI Equity Fund VII	Growth Equity	*	10,000,000	0	0
32. JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	104,998,505	38,849,343
JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	101,702,362	32,406,820
JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	57,620,833	3,650,474
33. Keystone V	Later Stage	3/31/1998	25,000,000	25,000,000	2,082,064
34. Kline Hawkes Pacific	Early Stage	8/30/2000	15,000,000	15,100,498	5,089,301
35. Knightsbridge Venture Capital VI	Fund of Funds	12/7/2004	20,000,000	15,000,000	0
36. Lightspeed Venture Partners VII	Early Stage	2/27/2006	18,000,000	14,407,490	917,875
Lightspeed Venture Partners VIII	Early Stage	6/27/2008	15,000,000	6,000,000	0
37. Meritech Capital Partners II	Later Stage	1/2/2001	26,475,166	24,313,025	18,833,211
Meritech Capital Partners III	Later Stage	4/5/2006	35,000,000	28,175,000	10,694,051
Meritech Capital Partners IV	Later Stage	*	20,000,000	0	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
38. Mid-Atlantic Venture Fund III	Early Stage	6/30/1997	\$20,008,308	\$20,000,000	\$5,654,702
Mid-Atlantic Venture Fund IV	Early Stage	5/4/2000	30,000,000	30,000,000	1,835,977
NEPA Venture II	Early Stage	12/31/1992	7,500,000	7,500,000	34,879,769
39. Morgenthaler Partners VII	Early Stage	7/26/2001	35,000,000	35,000,000	11,337,692
Morgenthaler Partners VIII	Diversified	10/3/2005	35,000,000	25,200,000	6,470,397
Morgenthaler Partners IX	Early Stage	11/25/2008	20,000,000	4,000,000	0
40. New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	198,305,408
New Enterprise Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	98,996,989
New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	4,440,531
New Enterprise Associates X	Early/Late Stage	12/11/2000	35,000,000	34,153,000	24,334,629
New Enterprise Associates 11	Early/Late Stage	3/1/2004	25,000,000	23,125,000	12,035,262
New Enterprise Associates 12	Early/Late Stage	6/26/2006	35,000,000	26,254,833	2,405,968
41. NewSpring Growth Capital II	Later Stage	12/5/2006	10,000,000	5,200,000	0
42. Novitas Capital III	Early Stage	4/17/2003	10,000,000	7,925,000	1,388,977
43. Oak Investment Partners XI	Later Stage	7/21/2004	35,000,000	35,000,000	8,514,984
Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	30,852,065	2,601,448
44. Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	27,475,884
Polaris Venture Partners III	Early Stage	1/21/2000	50,000,000	49,500,000	19,634,852
Polaris Venture Partners IV	Early Stage	9/30/2002	50,000,000	49,750,000	12,468,949
Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	33,250,000	0
45. Quaker BioVentures	Early Stage	2/20/2003	20,000,000	20,000,000	3,526,430
Quaker BioVentures II	Middle/Later Stage	4/3/2007	25,000,000	11,500,000	392,834
46. Sofinnova Venture Partners VII	Early Stage	1/18/2007	20,000,000	11,400,000	0
47. Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	43,829,421
48. Summit IV	Later Stage	9/30/1995	25,000,000	24,250,000	182,806,450
Summit V	Later Stage	3/31/1998	37,500,000	36,187,500	48,685,566
Summit Accelerator Fund	Early Stage	11/15/1999	8,000,000	7,609,500	9,783,578
Summit Partners Venture Capital Fund II	Diversified	9/22/2006	15,000,000	9,975,000	3,296,031
49. T.Rowe Price Stock Distribution Account	Stock Distribution Account	1/3/2005	0	317,753,361	301,551,429
50. TA/Advent VIII	Later Stage	6/30/1997	30,000,000	29,400,000	66,756,735
51. Three Arch Capital	Early Stage	12/20/2000	20,000,000	19,500,000	3,348,457
Three Arch Partners IV	Early/Late Stage	6/4/2004	20,000,000	15,800,000	1,941,653
52. TL Ventures III	Early Stage	3/31/1997	15,000,000	15,062,614	20,677,658
TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	25,582,809
TL Ventures V	Early Stage	10/18/2000	40,000,000	36,848,219	10,242,983

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

Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
53. US Venture Partners VII	Early Stage	2/18/2000	\$13,750,000	\$13,750,000	\$3,590,871
US Venture Partners VIII	Early Stage	6/1/2001	26,250,000	25,830,000	8,437,980
54. Weathergage Venture Capital	Fund of Funds	6/26/2007	25,000,000	10,250,000	86,963
Weathergage Venture Capital II	Fund of Funds	6/29/2010	25,000,000	750,000	0
55. Weston Presidio III	Later Stage	12/31/1998	35,000,000	31,989,586	23,236,172
Weston Presidio IV	Later Stage	6/21/2000	35,000,000	34,451,015	17,571,914
Weston Presidio V	Later Stage	12/8/2005	50,000,000	34,600,000	6,310,764
56. Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,951,175	3,484,303
Total Active Venture Capital			\$3,458,037,091	\$3,248,687,788	\$2,180,611,724

**Not Funded as of 9/30/10*

Commitments as of 12/31/10

Cash flows as of 9/30/10

Inactive Venture Capital Funds

	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	\$264,700,000	\$253,789,337	\$499,539,048

Private Equity Committed, Drawn and Distributed

as of September 30, 2010 - (Unaudited)

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

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. Abingworth Bioventures IV	Multi-Stage	9/1/2003	\$20,000,000	\$17,780,000	\$4,563,416
Abingworth Bioventures V	Multi-Stage	1/23/2007	33,775,000	15,891,384	541
2. ABRY Partners IV	Buyouts	3/30/2001	35,000,000	24,920,403	26,049,025
ABRY Partners V	Buyouts	7/29/2005	45,000,000	40,082,061	54,382,238
ABRY Partners VI	Mid Market Buyouts	3/26/2008	50,000,000	37,502,866	754
ABRY Advanced Securities Fund	Senior Debt	8/1/2008	25,000,000	16,190,640	744,768
ABRY Broadcast Partners III	Buyouts	2/7/1997	25,000,000	22,592,561	22,188,623
ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	26,540,537	34,130,863
ABRY Senior Equity II	Private Equity	7/27/2006	30,000,000	26,922,865	6,423,972
3. ABS Capital Partners III	Buyouts	3/26/1999	35,000,000	29,428,915	18,465,307
ABS Capital Partners IV	Buyouts	10/13/2000	35,000,000	30,984,280	57,368,092
ABS Capital Partners V	Buyouts	11/14/2005	20,000,000	19,627,560	2,009,511
4. Accel Europe	Early Stage	7/2/2001	15,000,000	11,350,000	0
5. Advent International GPE VI-A	Mid Market Buyouts	7/7/2008	35,000,000	12,162,500	700,000
Advent Latin American Private Equity Fund IV	Buyouts	8/2/2007	30,000,000	22,050,000	3,300,000
Advent Latin American Private Equity Fund V	Buyouts	5/17/2010	15,000,000	375,000	0
6. AG Capital Recovery Partners II	Distressed Debt	10/1/2001	17,600,000	17,695,470	27,086,586
AG Capital Recovery Partners IV	Distressed Debt	2/4/2003	50,000,000	35,415,216	54,685,621
AG Capital Recovery Partners V	Distressed Debt	4/17/2006	20,000,000	20,000,000	8,520,000
7. Alpha Private Equity Fund 4	Mid Market Buyouts	5/15/2002	26,580,000	35,605,050	72,301,496
Alpha Private Equity Fund 5	Mid Market Buyouts	4/1/2006	67,660,800	61,007,207	7,067,686
8. APAX Europe IV	Buyouts	3/31/1999	35,000,000	29,909,800	37,636,346
APAX Europe V	Buyouts	4/27/2001	70,000,000	70,385,477	130,812,281
APAX Europe VI	Buyouts	5/19/2005	76,349,190	68,631,580	51,579,928
APAX Europe VII	Buyouts	6/27/2007	132,900,000	86,525,450	0
APAX UK Ventures VI	Middle/Later Stage	12/31/1997	6,918,899	6,933,887	13,109,711
9. Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,838,620	106,485,077
Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	46,528,159	101,572,361
Apollo Investment Fund VI	Buyouts	7/19/2006	40,000,000	35,076,832	2,261,112
10. Asia Alternatives Capital Partners	Fund of Funds	6/26/2007	50,000,000	17,411,702	1,375,640
Asia Alternatives Capital Partners II	Fund of Funds	3/7/2008	50,000,000	4,502,723	698,913
Asia Alternatives Korea Buyout Investors (Hahn & Co)	Buyouts	*	7,000,000	0	0
11. Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,367,113	9,056,122
12. Audax Private Equity Fund	Mid Market Buyouts	5/25/2000	35,000,000	36,839,098	51,124,151
Audax Private Equity Fund II	Mid Market Buyouts	6/17/2005	25,000,000	25,517,169	9,040,715
Audax Private Equity Fund III	Mid Market Buyouts	11/7/2007	37,000,000	25,853,830	1,621,483

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

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
13. Avenue Special Situations Fund IV	Distressed Debt	3/27/2006	\$50,000,000	\$50,000,000	\$26,608,711
Avenue Special Situations Fund V	Distressed Debt	6/4/2007	70,000,000	70,004,050	1,984,960
Avenue Special Situations Fund VI	Distressed Debt	*	20,000,000	0	0
Avenue Asia Special Situations Fund IV	Distressed Debt	6/30/2006	50,000,000	32,415,221	2,031,772
Avenue Europe Special Situations Fund	Distressed Debt	7/30/2008	34,750,000	32,835,142	96,125
14. AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	20,875,729	27,240,142
AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	11,164,568	13,985,929
AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	45,790,533	2,469,042
15. B III Capital Partners	Distressed Debt	9/30/1997	35,000,000	34,503,390	50,362,865
16. Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	25,000,000	40,556,249
Bain Capital Fund VIII-E	Buyouts	12/15/2004	13,405,000	12,803,583	3,228,249
Bain Capital Fund IX	Buyouts	4/10/2006	75,000,000	72,937,500	7,563,269
Bain Capital Fund X	Buyouts	1/15/2008	90,000,000	35,325,000	3,177,534
Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	15,000,000	14,550,000	637,176
Bain Capital X Coinvestment Fund	Buyouts	7/28/2008	5,000,000	700,000	0
Bain Capital Asia Fund	Distressed Debt	10/18/2007	12,000,000	7,620,000	0
Bain Capital Europe III	Buyouts	7/10/2008	76,555,500	15,587,763	0
Sankaty Credit Opportunities III	Distressed Debt	3/8/2007	50,000,000	50,000,000	563,636
Sankaty Credit Opportunities IV	Distressed Debt	7/15/2008	40,000,000	28,000,000	6,176,260
17. Baring India Private Equity Fund III Limited	Mid Market Buyouts	10/10/2008	5,000,000	510,689	261,932
Baring Vostok Private Equity Fund IV	Buyouts	3/10/2008	30,000,000	13,041,368	68,386
18. Battery Ventures VIII Side Car Fund	Diversified	8/29/2008	9,000,000	4,971,600	0
19. BC European Capital VII	Buyouts	7/28/2000	37,740,202	37,754,746	71,330,436
BC European Capital VII Top Up	Buyouts	7/2/2001	12,278,596	12,278,596	21,770,621
BC European Capital VIII	Buyouts	12/13/2005	97,635,000	82,709,979	4,429,601
BC European Capital IX	Buyouts	*	26,494,000	0	0
20. Berkshire Fund VI	Mid Market Buyouts	7/11/2002	20,000,000	18,297,614	19,442,807
Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	15,682,854	3,877,536
21. Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,862,357	93,487,830
Blackstone Capital III	Buyouts	11/3/1997	75,000,000	77,242,310	115,712,550
Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	64,452,925	103,698,112
Blackstone Capital Partners V	Buyouts	5/30/2006	150,000,000	134,234,382	8,403,077
Blackstone Communications Partners I	Buyouts	8/29/2000	25,000,000	24,806,956	20,987,871
22. Brait IV	Mid Market Buyouts	12/11/2006	25,000,000	16,572,680	597,087
23. Brynwood Partners V	Mid Market Buyouts	7/31/2005	10,000,000	9,434,660	1,993,011
Brynwood Partners VI	Mid Market Buyouts	10/13/2009	10,000,000	1,949,631	23,112
24. Centerbridge Capital Partners I	Distressed Debt	2/27/2007	50,000,000	45,196,256	6,411,364
25. Cerberus Institutional Partners	Distressed Debt	3/5/1999	35,000,000	35,000,000	76,576,855
Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	69,789,110
Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	35,000,000	22,321,354	15,142,120
Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	61,875,000	0
26. Charterhouse Capital Partners VII	Buyouts	1/17/2003	52,120,000	54,005,850	86,164,523
Charterhouse Capital Partners VIII	Buyouts	4/19/2006	74,400,000	65,680,887	0
Charterhouse Capital Partners IX	Buyouts	4/28/2009	79,290,000	11,925,816	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
27. Charterhouse Equity Partners II	Buyouts	3/31/1994	\$40,000,000	\$43,908,228	\$100,919,498
28. Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	75,000,205
29. Chequers Capital XV	Buyouts	7/5/2006	31,434,000	23,249,767	934,078
30. CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	20,000,000	15,200,000	5,922,676
31. Clayton Dubilier & Rice V	Buyouts	6/30/1995	50,000,000	49,756,029	49,826,483
Clayton Dubilier & Rice VI	Buyouts	12/31/1998	50,000,000	36,211,768	55,410,949
32. Clessidra Capital Partners II	Buyouts	11/5/2008	31,716,000	5,291,399	3,150
33. Code Hennessy & Simmons	Mid Market Buyouts	9/28/1989	10,000,000	9,650,000	29,205,907
Code Hennessy & Simmons III	Mid Market Buyouts	9/30/1997	40,000,000	38,724,000	55,634,838
Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	100,000,000	154,467,581
Code Hennessy & Simmons V	Mid Market Buyouts	11/10/2005	50,000,000	45,821,458	5,488,231
34. Cognetas Fund II	Buyouts	11/2/2005	49,468,400	40,854,674	2,566,249
35. CVI Global Value Fund	Distressed Debt	2/23/2007	60,000,000	57,151,667	825,601
36. DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	83,261,423	100,717,306
DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	86,989,557	118,650,601
37. Elevation Partners	Private Equity	11/10/2005	35,000,000	28,836,660	13,838,085
38. Energy Spectrum Partners IV	Mid Market Buyouts	12/15/2004	50,000,000	51,478,024	24,688,101
Energy Spectrum Partners V	Mid Market Buyouts	7/9/2007	30,000,000	19,705,262	8,381,575
39. Eureka II	Small Buyouts	1/30/2006	20,000,000	12,655,753	1,063,386
40. Excelsior Capital Asia Partners III	Growth Equity	8/17/2006	25,000,000	17,998,748	1,034,121
41. First Reserve Fund X	Buyouts	10/28/2004	30,000,000	30,000,000	37,280,187
First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	46,404,862	2,057,748
First Reserve Fund XII	Buyouts	11/19/2008	50,000,000	21,716,228	1,931,523
42. Francisco Partners	Mid Market Buyouts	7/27/2000	50,000,000	47,825,987	41,370,002
Francisco Partners II	Mid Market Buyouts	7/10/2006	30,000,000	26,325,000	6,638,868
Francisco Partners III	Mid Market Buyouts	*	20,000,000	0	0
43. Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	55,727,112
44. Great Hill Equity Partners	Mid Market Buyouts	4/12/1999	30,000,000	30,000,000	29,994,856
Great Hill Equity Partners II	Mid Market Buyouts	3/28/2001	35,000,000	35,063,336	59,668,235
Great Hill Equity Partners III	Mid Market Buyouts	3/7/2006	35,000,000	33,320,000	4,200,000
Great Hill Equity Partners IV	Mid Market Buyouts	9/8/2008	25,000,000	7,425,000	0
45. Gryphon Partners II	Mid Market Buyouts	11/3/1999	35,000,000	34,074,092	30,294,419
Gryphon Partners III	Mid Market Buyouts	9/8/2004	30,000,000	25,920,899	10,370,620
46. GTCR V	Buyouts	3/31/1997	11,400,000	11,400,000	20,502,976
GTCR VI	Buyouts	9/30/1998	50,000,000	50,000,000	41,712,557
GTCR VII	Buyouts	3/15/2000	55,000,000	50,074,671	121,729,912
GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	88,754,849
GTCR IX	Buyouts	12/1/2006	50,000,000	38,671,260	3,161,153
47. H.I.G. Bayside Debt & LBO Fund II	Distressed Debt	6/17/2008	30,000,000	10,550,000	1,332,588
48. HarbourVest IPEP II	Fund of Funds	6/30/1997	25,000,000	24,500,000	33,043,377
HarbourVest IPEP III	Fund of Funds	6/30/1998	40,000,000	38,800,000	46,707,083
HarbourVest IPEP IV	Fund of Funds	4/9/2001	40,000,000	37,400,000	34,491,373
HIPEP V-Asia Pacific & Rest of World	Buyouts	5/9/2006	30,000,000	19,245,316	1,137,931
Dover Street VII	Secondaries	7/2/2008	30,000,000	9,620,287	419,897

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

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
49. Hellman & Friedman IV	Buyouts	2/14/2000	\$75,000,000	\$67,317,209	\$176,818,041
Hellman & Friedman V	Buyouts	12/20/2004	80,000,000	70,932,769	84,726,429
Hellman & Friedman VI	Buyouts	6/5/2007	125,000,000	93,032,927	5,006,474
50. InterMedia Partners VII	Diversified	1/5/2007	15,000,000	14,237,428	158,518
51. Invemed Catalyst Fund	Mid Market Buyouts	10/19/1999	15,502,783	13,983,456	11,020,707
52. J.H. Whitney V	Later Stage	3/29/2001	20,000,000	23,307,275	40,932,059
J.H. Whitney VI	Buyouts	1/5/2006	50,000,000	44,361,990	8,221,368
J.H. Whitney VII	Buyouts	*	25,000,000	0	0
53. J.W. Childs Equity Partners III	Mid Market Buyouts	8/20/2002	40,000,000	39,836,186	30,281,201
54. JP Morgan US Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	50,091,285	24,612,724
55. Kelso VII	Buyouts	10/18/2004	40,000,000	39,443,518	17,202,231
Kelso VIII	Buyouts	11/29/2007	150,000,000	39,379,111	2,938,325
56. Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,495,850	18,587,584
Landmark Equity V	Secondaries	12/31/1995	19,624,113	19,434,947	23,435,898
57. Leeds Equity Partners IV	Mid Market Buyouts	11/12/2004	20,000,000	19,867,964	7,492,443
58. Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	48,171,385
Lexington Capital Partners III	Secondaries	1/26/1999	35,000,000	34,516,449	38,567,481
Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	74,132,023	88,916,349
Lexington Capital Partners VI	Secondaries	10/21/2005	50,000,000	44,779,592	11,699,804
59. Lime Rock Partners III	Later Stage	3/7/2005	15,000,000	14,684,503	2,886,836
Lime Rock Partners IV	Later Stage	11/16/2006	25,000,000	20,187,806	103,364
Lime Rock Partners V	Later Stage	10/2/2008	42,500,000	22,911,407	19,089
Lime Rock Resources	Diversified	12/28/2005	20,000,000	18,806,344	5,995,499
60. LLR Equity Partners	Mid Market Buyouts	2/4/2000	25,000,000	24,357,320	47,151,516
LLR Equity Partners II	Mid Market Buyouts	1/29/2004	25,000,000	25,000,000	7,651,511
LLR Equity Partners III	Mid Market Buyouts	7/24/2008	30,000,000	10,208,721	1,867,995
61. Madison Dearborn Capital Partners II	Buyouts	3/31/1997	40,000,000	39,999,996	93,232,382
Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	75,186,728	106,102,972
Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	90,372,035	81,852,761
Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	65,873,474	3,294,276
Madison Dearborn Capital Partners VI	Buyouts	5/27/2008	50,000,000	12,028,157	0
62. Matlin Patterson Global Opportunities Partners	Distressed Debt	5/31/2001	35,000,000	30,091,262	52,596,927
Matlin Patterson Global Opportunities Partners II	Distressed Debt	6/30/2004	30,000,000	30,410,597	10,578,309
63. Media/Communications III	Buyouts	6/30/1997	25,000,000	23,750,000	37,704,073
Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	5,010,893
Media/Communications V	Buyouts	9/27/2000	35,000,000	34,812,205	30,154,377
64. Meridian Venture Partners II	Buyouts	2/11/2005	10,000,000	10,000,000	823,344
65. New York Life Capital Partners III	Co-investments	6/30/2006	50,000,000	49,899,153	7,230,197
New York Life Capital Partners IV	Co-investments	4/4/2008	50,000,000	26,401,553	7,045
66. Nordic Capital V	Buyouts	5/7/2004	40,000,000	45,267,886	17,525,584
Nordic Capital VI	Buyouts	7/25/2006	54,441,000	59,539,883	49,656
Nordic Capital VII	Buyouts	5/2/2008	100,237,900	35,367,450	0

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

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
67. Oakhill Capital Partners	Buyouts	5/17/1999	\$50,000,000	\$53,683,590	\$76,598,219
68. Oaktree Capital Management	Diversified	5/28/2004	40,000,000	40,581,778	38,681,569
OCM Opportunities Fund	Distressed Debt	1/31/1996	24,000,000	24,000,000	39,136,887
OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	60,097,978
OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	88,890,116
OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	70,000,000	115,350,030
OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	53,923,825
OCM Opportunities Fund VI	Distressed Debt	9/28/2005	40,000,000	40,000,000	26,006,292
OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	40,000,000	12,234,048
OCM Opportunities Fund VIIb	Distressed Debt	6/3/2008	40,000,000	36,000,000	0
OCM Opportunities Fund VIII	Distressed Debt	9/20/2010	12,500,000	5,395,925	0
OCM Opportunities Fund VIIIb	Distressed Debt	*	12,500,000	0	0
OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	35,038,479
OCM Principal Opportunities IV	Distressed Debt	1/24/2007	20,000,000	20,000,000	2,640,588
OCM/GFI Power Opportunities Fund II	Buyouts	5/9/2005	25,000,000	13,439,832	25,634,202
Oaktree Power Opportunities Fund III	Buyouts	*	25,000,000	0	0
69. Palamon European Equity	Buyouts	7/23/1999	36,305,881	36,115,379	38,560,281
Palamon European Equity II	Diversified	10/25/2005	40,114,200	30,566,673	3,270,841
70. Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	22,038,045	20,427,123
71. Patriot Financial Partners	Mid Market Buyouts	6/12/2008	25,000,000	13,767,767	146,667
72. Permira European Fund	Buyouts	9/30/1997	33,789,023	32,159,947	84,005,717
Permira European Fund II	Buyouts	6/7/2000	47,979,751	45,672,612	78,101,935
Permira European Fund III	Buyouts	1/12/2004	112,640,170	125,077,125	160,726,110
Permira IV	Buyouts	12/14/2006	126,870,000	97,030,170	0
Permira UK Venture Fund III	Middle/Later Stage	3/31/1991	9,063,438	8,946,988	26,106,191
Permira UK Venture Fund IV	Middle/Later Stage	12/31/1995	15,000,000	15,993,572	22,721,533
73. Pitango Venture Capital Fund IV	Diversified	7/19/2004	20,000,000	17,401,534	4,826,274
Pitango Venture Capital Fund V	Seed/Early Stage	8/22/2007	30,000,000	11,250,000	0
74. PNC Equity Partners II	Mid Market Buyouts	8/30/2007	15,000,000	10,393,090	89,457
75. Providence Equity Partners IV	Mid Market Buyouts	11/27/2000	25,000,000	23,398,494	33,944,337
Providence Equity Partners V	Mid Market Buyouts	4/4/2005	45,000,000	41,358,512	2,386,279
Providence Equity Partners VI	Buyouts	3/16/2007	50,000,000	35,369,981	813,492
76. SCP Private Equity Partners II	Buyouts	6/15/2000	25,000,000	24,526,021	5,972,493
77. Segulah IV	Mid Market Buyouts	9/25/2008	15,688,890	5,587,293	0
78. SFC Energy Partners I	Buyouts	7/27/2007	25,000,000	11,974,955	768,231
SFC Energy Partners II	Buyouts	*	25,000,000	0	0
79. ShoreView Capital Partners	Buyouts	6/16/2003	38,000,000	30,878,791	31,860,239
ShoreView Capital Partners II	Buyouts	3/27/2008	40,000,000	15,102,770	1,155,178
80. Siguler Guff BRIC Opportunities Fund	Fund of Funds	5/8/2006	10,000,000	8,958,299	1,849,775
Siguler Guff BRIC Opportunities Fund II	Fund of Funds	4/9/2008	25,000,000	10,730,575	72,541
81. Sterling Capital Partners I	Buyouts	10/31/2002	15,000,000	14,979,168	15,657,463
Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	29,086,956	9,352,141
Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	18,847,145	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
82. Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	\$97,134,500	\$66,051,464	\$9,219,748
Summit Ventures VI	Later Stage	3/23/2001	62,000,000	63,343,733	54,205,850
83. TA IX	Later Stage	9/20/2000	45,000,000	43,650,000	76,378,116
TA X	Middle/Later Stage	4/25/2006	70,000,000	67,550,000	14,000,000
84. Thomas H. Lee Equity Fund V	Buyouts	7/3/2001	100,000,000	103,805,572	110,742,239
Thomas H. Lee Equity Fund VI	Mid Market Buyouts	11/14/2006	50,000,000	32,277,170	555,740
85. TPG Partners II	Buyouts	6/30/1997	75,000,000	72,111,267	127,798,284
TPG Partners III	Buyouts	1/13/2000	75,000,000	64,119,169	140,511,744
TPG Partners IV	Buyouts	12/29/2003	30,000,000	27,844,591	18,616,227
TPG Partners V	Buyouts	6/27/2006	100,000,000	86,434,710	5,618,783
TPG Partners VI	Buyouts	5/22/2008	45,000,000	13,318,617	53,917
Newbridge Asia III	Buyouts	2/15/2001	15,000,000	14,438,357	50,786,526
Newbridge Asia IV	Buyouts	9/27/2005	40,000,000	37,818,791	29,295,994
TPG Asia V	Buyouts	2/19/2008	22,500,000	7,259,345	1,228,985
86. UMS Partners Fund I	Distressed Debt	2/15/2005	5,000,000	5,000,000	3,004,752
87. Versa Capital Partners	Distressed Debt	10/16/2005	20,000,000	20,611,753	9,471,330
Versa Capital Partners II	Distressed Debt	7/31/2008	15,000,000	2,639,170	0
88. Vestar Capital Partners III	Buyouts	6/30/1997	25,000,000	24,362,534	23,541,126
Vestar Capital Partners IV	Mid Market Buyouts	1/25/2000	100,000,000	96,823,787	115,776,371
Vestar Capital Partners V	Mid Market Buyouts	1/25/2006	50,000,000	42,556,049	3,398,175
89. W Capital Partners II	Secondaries	8/8/2007	40,000,000	22,827,138	4,257,093
90. Yucaipa American Alliance Fund II	Mid Market Buyouts	1/13/2009	25,000,000	15,693,506	1,611,724
Total Active Private Equity			\$9,582,785,527	\$7,776,168,843	\$6,368,064,968

*Not Funded as of 9/30/10

Commitments as of 12/31/10

Cash flows as of 9/30/10

Inactive Private Equity Funds

	Capital Committed	Capital Drawn	Distributions
Total Inactive Private Equity	\$512,567,585	\$492,201,439	\$851,220,584

Inflation Protection Investments Summary

as of December 31, 2010 - (Unaudited)

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

Investment Objective: Inflation Protection investments are employed by the Fund to provide diversification within the total Fund and to act as a hedge against inflation. The asset class is composed of actively managed commodities; 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. The Inflation Protection strategies also provide diversification and low correlation to other assets in the portfolio, and are expected to outperform stocks and bonds during periods of rising inflation, but may underperform when inflation is stable or falling.

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

SERS' *2010 Annual Strategic Investment Plan* targets a long-term allocation of 4.0% of assets to Inflation Protection. Within this 4.0% allocation, 50.0% is targeted to the active diversified inflation protection portfolio, and the remaining 50.0% is targeted to the active multi-manager commodity portfolio.

Market Exposure as of December 31, 2010: Inflation Protection strategies had a \$1.1 billion market exposure, 4.3% of the total Fund's \$25.5 billion.

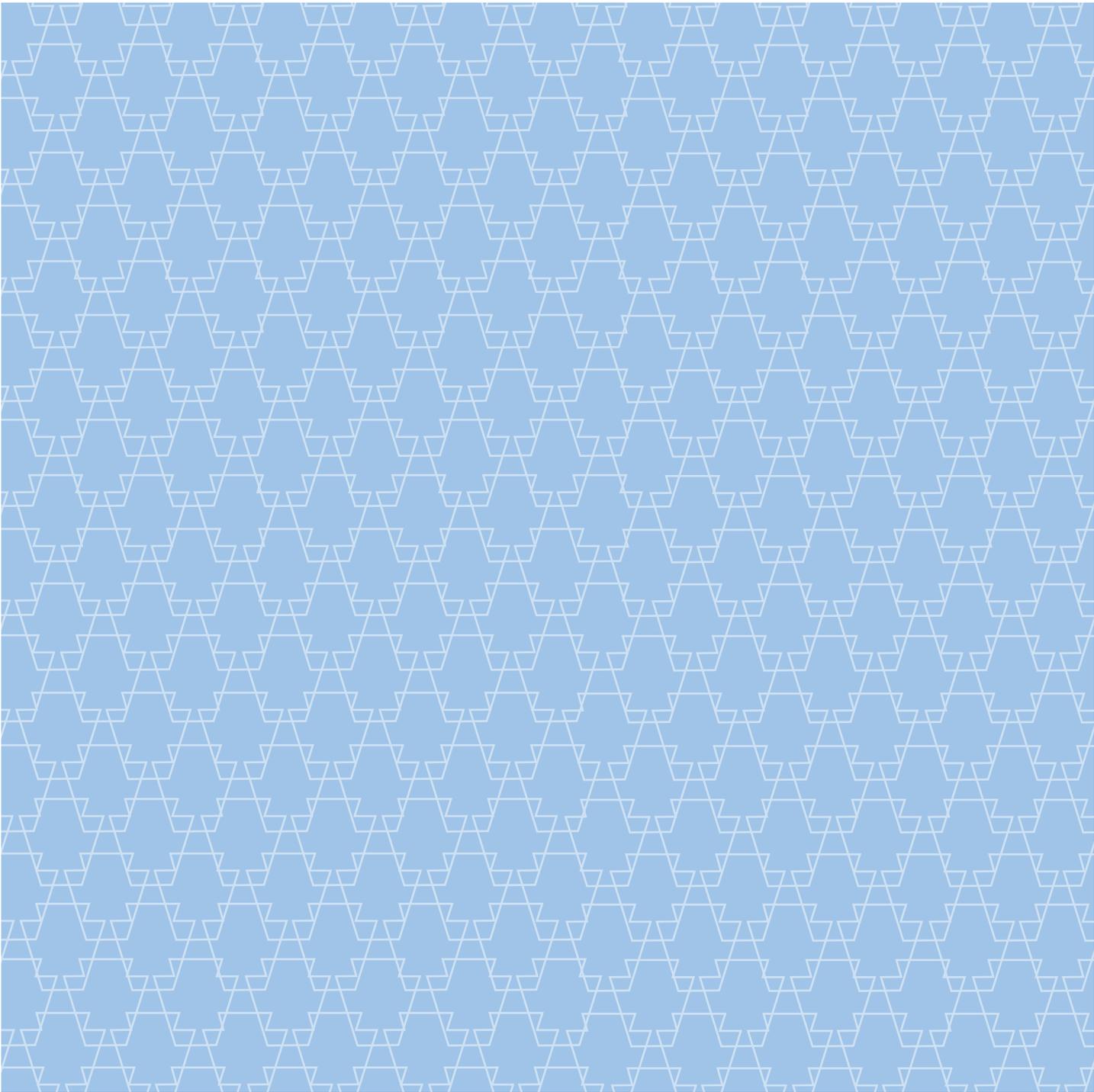
Number of Investment Advisors: SERS had contracts with two external investment advisors.

Types of Investment Portfolios: As of December 31, 2010, 46.4% of SERS' Inflation Protection allocation was invested in the actively managed diversified inflation protection portfolio which invests in commodities, inflation-sensitive global equity and TIPS. The remaining 53.6% was in the multi-manager commodity product, which employs five underlying commodities managers across the various commodity sectors (energy, precious metals, industrial metals and agriculture).

SERS Inflation Protection Investments

Inflation Protection Investment Advisor	Investment Style	Market Exposure as of 12/31/10* (\$ millions)
1. Wellington Management Company	Diversified inflation protection portfolio	\$508.4
2. Blackstone Alternative Asset Management	Fund-of-commodity funds	587.7
Total Inflation Protection Investments		\$1,096.2

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



Pennsylvania Investments Summary

as of December 31, 2010 - (Unaudited)

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

The most significant impact the Fund can have on the State’s economy is to manage an overall program that achieves a fully funded status and lowers the employer contributions to the Fund below the normal cost. The reduction of such contributions may then be used by the legislature for purposes it deems most important to Pennsylvania citizens and taxpayers, such as tax reduction, economic development or other priorities. Nevertheless, the Fund also seeks to invest in State-based companies and other State entities when investment characteristics are equivalent.

Fair Value of Pennsylvania Investments as December 31, 2010: SERS’ assets had an unaudited fair value in Pennsylvania investments of approximately \$1.3 billion, 5.3% of SERS Fund.

SERS Pennsylvania Investments By Asset Class (\$ millions)

Asset Class	Total PA Fair Value
Stocks	\$519.6
Fixed Income	26.7
Real Estate	263.2
Venture Capital	86.7
Private Equity	445.0
Total Pennsylvania Investments	\$1,341.2

SERS investment portfolios have historically held investments in Pennsylvania firms, as some large national firms are headquartered in Pennsylvania, including Comcast Corporation (Philadelphia-Communications), PNC Financial Services (Pittsburgh-Financial), Air Products & Chemicals, Inc. (Allentown-Basic Materials), H. J. Heinz Company (Pittsburgh-Consumer), and PPG Industries Inc. (Pittsburgh-Basic Materials). 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 364 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 2010.

Pennsylvania Investments Summary *(continued)*

Top-Performing Pennsylvania Stocks

Company	Location	Return for 2010
Unitek Global Services Unitek Global Services Inc. provides engineering, construction management and installation fulfillment services to companies. The Company specializes in the telecommunications, broadband cable, and satellite industries.	Blue Bell	513%
Atlas Pipeline Partners, LP Atlas Pipeline Partners, LP provides natural gas gathering services in the Anadarko and Permian Basins located in the southwestern and mid-continent United States and the Appalachian Basin in the eastern United States. The Company also provides natural gas processing and treating services in Oklahoma and Texas.	Pittsburgh	155%
Dorman Products Inc Dorman Products Inc. supplies automotive products and home hardware. The Company supplies its products to the automotive aftermarket and mass merchandise markets.	Colmar	131%
Hersha Hospitality Trust Hersha Hospitality Trust is a real estate investment trust (REIT) that owns and operates upscale and mid-scale limited service and extended-stay hotels in established metropolitan markets. The trust owns and operates hotels in multiple states throughout the Northeastern United States	Harrisburg	118%
Internet Capital Group Inc Internet Capital Group Inc. is an Internet holding company primarily involved in managing and operating a network of business-to-business e-commerce companies.	Wayne	114%
Quaker Chemical Corporation Quaker Chemical Corporation produces, develops, and markets custom-formulated chemical specialty products. The Company also provides fluid management services for manufacturers around the world, primarily in the steel, automotive, and can industries.	Conshohocken	108%
ViroPharma Incorporated ViroPharma Incorporated is a biopharmaceutical company committed to the commercialization, development, and discovery of new medicines. The Company's products include a treatment for prophylaxis of hereditary angioedema as well as capsules for the treatment of antibiotic associated pseudomembranous colitis caused by Clostridium difficile infection (CDI) and enterocolitis.	Exton	106%
Comm Bancorp Inc Comm Bancorp Inc. is a holding company for Community Bank and Trust Company. The bank provides a variety of financial services through banking offices located in Lackawanna, Susquehanna, Wayne, and Wyoming counties in northeastern Pennsylvania.	Clarks Summit	101%
iGate Corporation iGate Corporation offers a range of information technology solutions to large and medium-sized organizations using an offshore/onsite model. The Company's services include client/server design and development, conversion/migration services, offshore outsourcing, enterprise resource planning ("ERP") package implementation and integration services, and software development.	Pittsburgh	100%
Destination Maternity Corporation Destination Maternity Corporation designs, manufactures and retails maternity clothes. The Company operates a chain of maternity apparel stores throughout the United States.	Philadelphia	99%

Pennsylvania Investments Summary *(continued)*

Emerald Advisors of Lancaster and Mellon Capital Management Corporation actively manage portfolios principally derived from the mid/small cap stocks in SERS' Pennsylvania stock universe. These two portfolios, plus the Pennsylvania stocks held in SERS other stock portfolios, provided a total of \$519.6 million invested in Pennsylvania stocks.

Fixed Income

SERS had approximately \$26.7 million invested as of December 31, 2010, 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 provided debt financing to support the expansion and growth of Pennsylvania small business. The Fund's objective was to lend to established, profitable companies in good financial condition with annual revenues ranging from \$10 - \$100 million. The majority of the Fund's investments had a maturity of between five and ten years. Loan amounts usually ranged from \$2 million to \$15 million. As of December 31, 2010 SERS portion of Berwind investments totaled \$2.4 million while the PNC investments had matured and all capital was returned to SERS. Nearly all of Berwind's investments have also matured and capital distributed back to SERS.

Cash

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

Real Estate

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

As of September 30, 2010, the SERS real estate portfolio contained 62 Pennsylvania investments totaling 9.5 million square feet of office, retail, and warehouse space, and 6,549 apartment, hotel and senior housing units. The gross fair value of the Pennsylvania real estate portfolio investments totaled \$1.4 billion, of which SERS' ownership share was \$263.2 million.

Alternative Investments

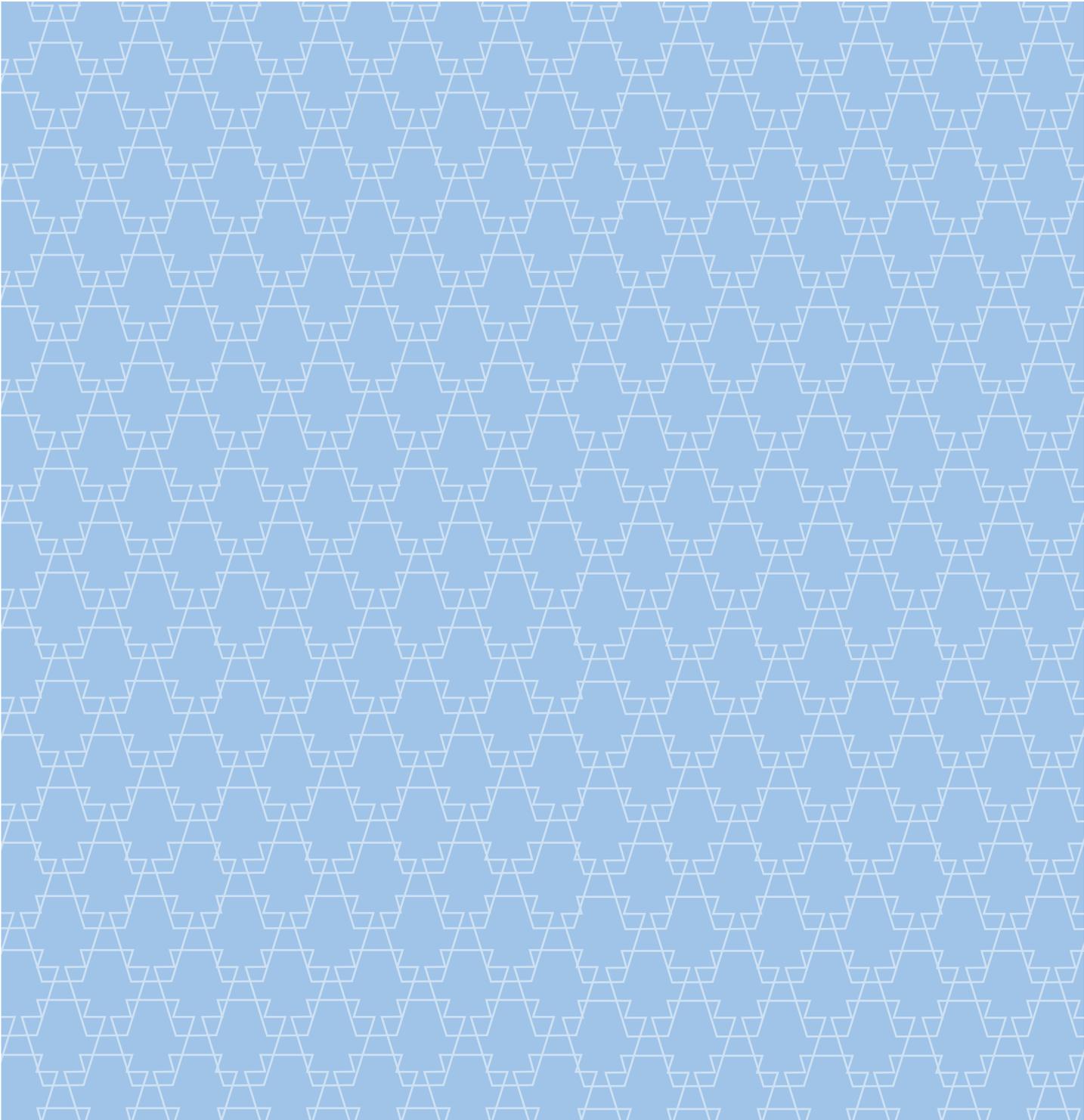
SERS' venture capital program dates back to 1985. Initially the program targeted a 1% allocation to venture capital with a focus to invest with managers located in Pennsylvania or with managers whom had a Pennsylvania investment mandate. Over its 25 year life the program has grown to include national and international based private equity and venture capital managers and the target allocation to alternative investments is 15%. Although the program has become more global, the number of managers investing in companies that impact Pennsylvania via income tax revenue and/or corporate tax revenue continues to comprise a meaningful portion of the program. As of June 30, 2010, 53 of SERS' active managers held investments impacting the state. SERS' fair values of Pennsylvania-based and non-PA based companies impacting the Commonwealth are \$110 million and \$420 million, respectively. This equates to 8.6% of the alternative investment program fair value.

Pennsylvania Investments Summary *(continued)*

As of June 30, 2010, SERS' venture capital and private equity partnerships invested in 94 Pennsylvania companies employing approximately 34,001 employees, and representing a payroll of \$1.3 billion. In addition, partnerships in which SERS participates invested in approximately 170 companies domiciled outside Pennsylvania but employing approximately 23,237 Pennsylvania citizens with payrolls of \$704 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.

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



Women/Minority Investment Advisor and Broker Report

as of December 31, 2010 - (Unaudited)

Investment Advisors

The following four women or minority-owned firms were under contract with SERS to provide investment advisory services as of December 31, 2010.

Women/Minority-Owned Investment Advisors

Firm	Status	SERS Assets Under Management
Fairview Capital I & II	Minority Woman-Owned	\$20.0 million commitment; \$19.9 million funded
Hawkeye Partners	Woman-Owned	\$75.0 million commitment; \$41.2 million funded
Rock Creek	Minority Woman-Owned	\$294.0 million fair value
Taplin, Canida & Habacht, Inc.	Minority Woman-Owned	\$156.2 million fair value

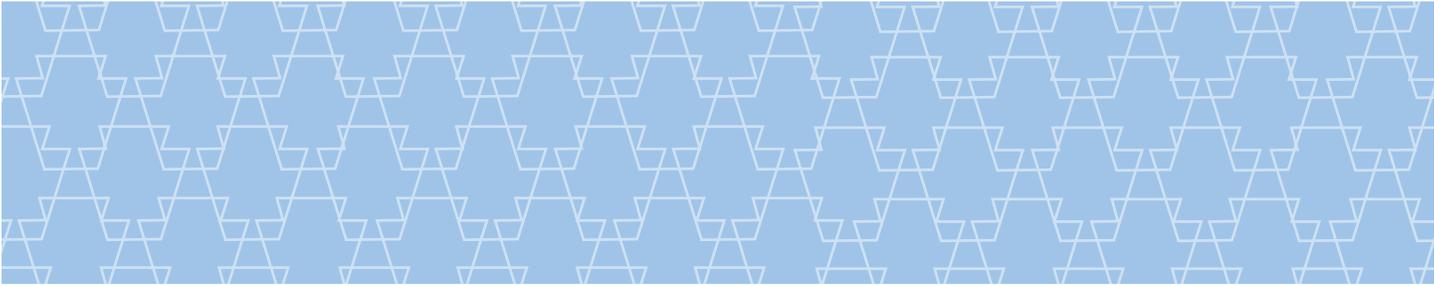
Brokers and Brokerage Commissions

SERS's external investment advisors utilized the following minority-owned brokerage firms during calendar year 2010.

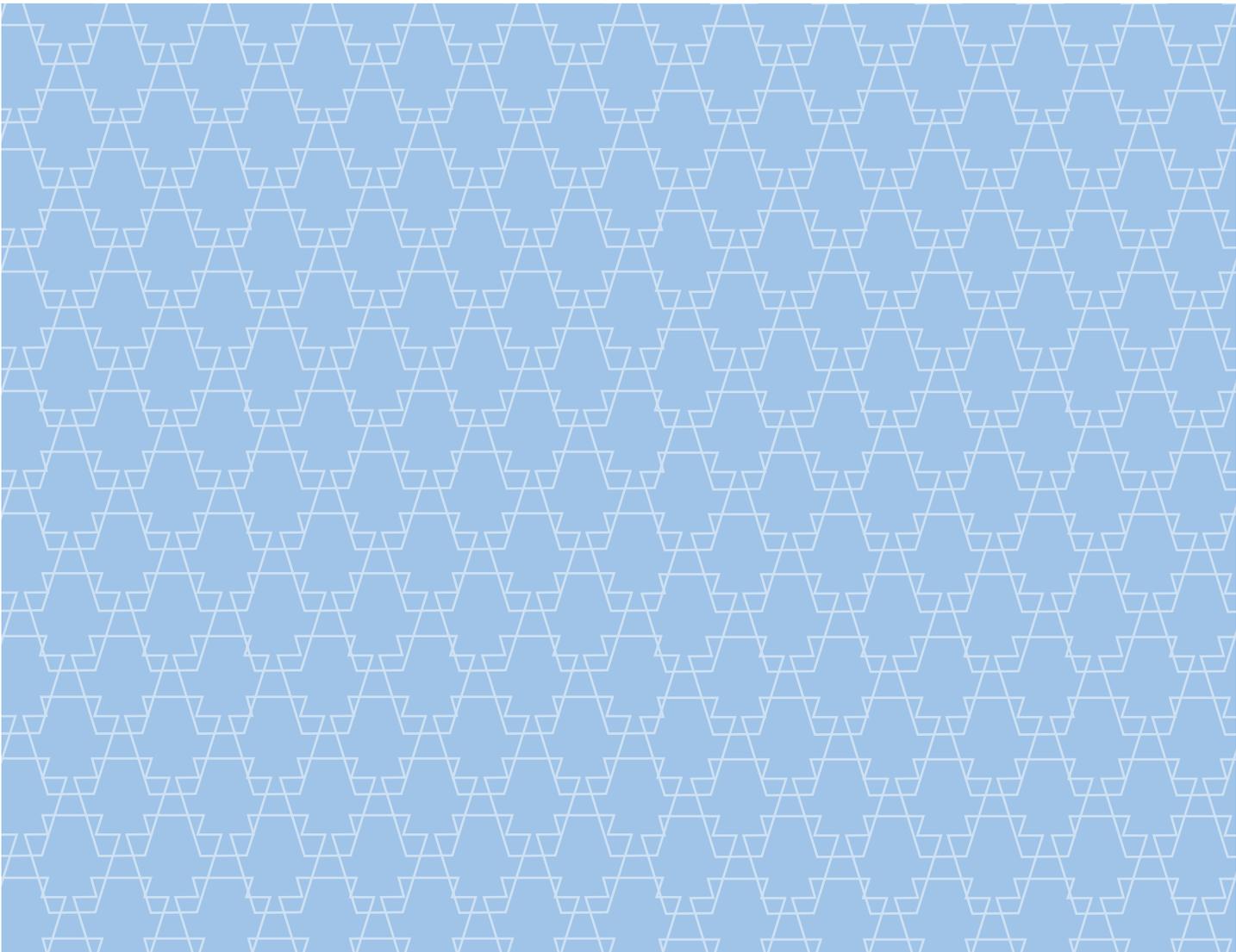
Minority commissions totaled \$215,736 for the year. Of this amount, international stock managers had \$65,434 of commissions credited to minority brokers. The SERS Board has a policy of targeting 5%-10% of U.S. stock commissions to be done with minority brokers. It is estimated that this year SERS U.S. stock managers directed approximately 9% 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 \$38.3 million of securities through minority brokers.

Minority-Owned Brokerage Commissions

Firm	Commissions
Andes	\$12,875
Cabrera Capital Markets	4,367
C L King	26,550
Divine Capital Markets	28,031
East West	26,227
Greentree Brokerage	4,485
Guzman & Company	585
Jackson Partners	6,009
Loop Capital Management	5,953
Magna Securities	559
Montrose Securities	4,566
M Ramsey King	4,613
M R Beal	435
Muriel S. Seibert & Co.	680
Pacific American	6,622
Roberts & Ryan Investments	6,400
Seslia Securities	11,420
Sturdivant & Company	53,509
Williams Capital Group	11,850
Total Minority Commissions	\$215,736



Deferred Compensation Program 12



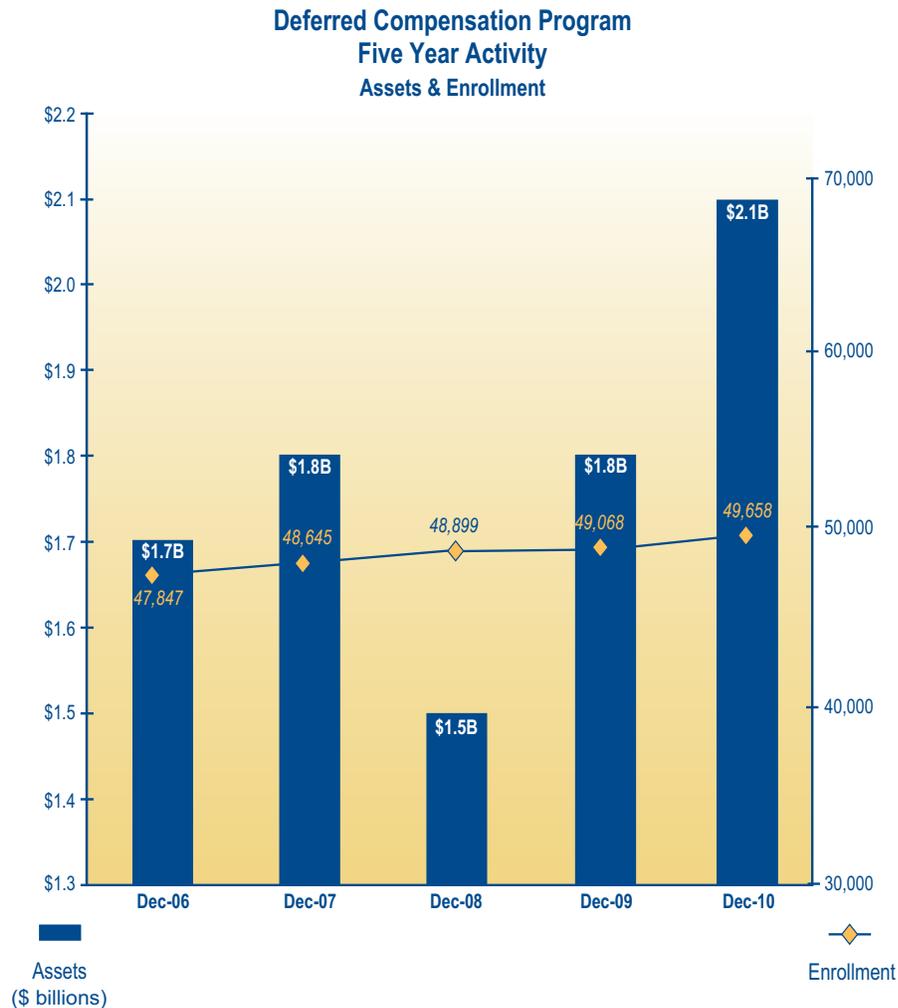
Deferred Compensation Program

Program History

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

Growth of the Program

Over the past five years, the Program's assets have increased in value from \$1.7 billion to approximately \$2.1 billion. The sharp drop in assets from \$1.8 billion in 2007 to \$1.5 billion in 2008 can be attributed to the downturn in the financial markets as participation in the program remained steady. As of December 31, 2010, there were 32,765 active and 16,893 inactive participants in the Program. The amount of annual participant deferrals over the past five years has ranged from \$122 million to \$160 million. In 2007, deferrals were \$160 million which was attributed to the large number of participant retirements that utilized the Program's special catch-up feature. Benefit payments to participants increased over that same time span, from \$41 million in 2006, to \$49 million in 2010. The chart below depicts the Program's asset and participation levels over the past five years.



Deferred Compensation Program *(continued)*

Program Highlights

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

