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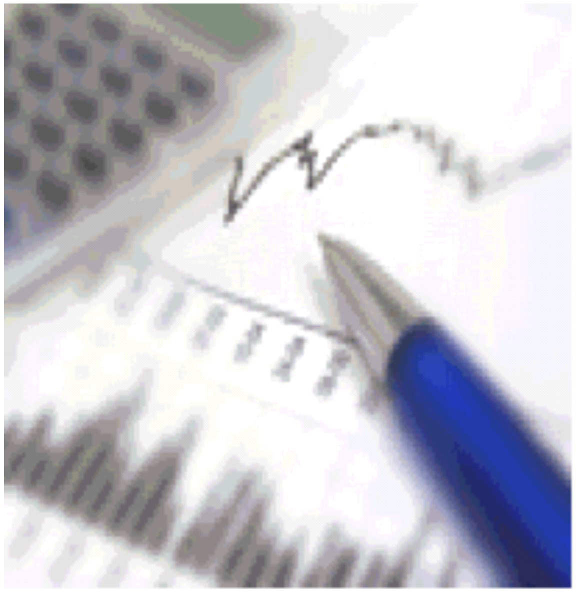

Sacramento County Employees' Retirement System

Investment Performance

Periods Ending December 31, 2008

Services provided by Mercer Investment Consulting, Inc.

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Asset Allocation

The Sacramento County Employees' Retirement System (SCERS) had a market value of $4,387.3 million at December 31, 2008, representing a decrease of $971.8 million from the September 30, 2008 market value of $5,359.0 million. At quarter-end, the Plan's assets were allocated across large cap equity (22.2%), small cap equity (5.0%), international equity (16.8%), fixed income (23.5%), hedge funds (5.6%), real estate (16.1%), private equity (2.5%), opportunistic (3.5%), cash (1.4%), and overlay (3.4%). The domestic equity, real estate, and cash asset classes were within their allowable ranges. All other asset classes were generally close to their targets but were not within their allowable ranges.

Total Fund Performance

The Total Fund underperformed its benchmark and the Public Funds > $1B Universe median for all periods shown. Since inception, the fund has returned 7.9% versus 8.2% for the benchmark.

Market Environment

The fourth quarter of 2008 saw a continued deterioration of overall market conditions, and the National Bureau of Economic Research announced that the U.S. was in the midst of a recession. Furthermore, rising unemployment, corporate write-downs, and government intervention were also commonly seen features across the global economy in the aftermath of the ongoing credit crisis. Commodities suffered their worst quarter on record as demand slumped because of the global recession. The advance estimate of annualized fourth-quarter GDP growth was –3.8%, which is the largest quarterly decline since 1982. Full-year GDP growth was 1.3%. The Federal Open Market Committee reduced the Federal Funds Target Rate three times during the fourth quarter. Over the quarter, the Fed funds target rate dropped from 2.00% to the astoundingly low current range of 0.00% to 0.25%.

Consumer prices, as measured by the Consumer Price Index (CPI), fell at an annual rate of 12.7% during the fourth quarter and rose 0.1% over the past 12 months. Excluding volatile food and energy prices, the CPI decreased at an annual rate of 0.3% during the quarter and rose 1.8% over the past 12 months. The Producer Price Index for finished goods fell 0.9% over the past 12 months, which represented a significant drop from last year (6.2% in December 2007). The Federal Reserve Board reported that preliminary production capacity utilization was 73.6% at the end of December, a decrease of 1.4% from the revised September number and 7.4% below the average for the period 1972 – 2007. The unemployment rate rose to 7.2% from 6.1% at the end of the third quarter, the highest it has been since 1993. The Consumer Confidence Index hit a new all-time low in December, standing at 38.0. In 1985, the Index was at 100, and in November 2008 it was at 44.7.

During the fourth quarter, oil prices continued to tumble from their recent record highs, closing below $40/barrel in December. The housing market, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, deteriorated further in the fourth quarter as a new record low was reached in November and December. Home prices, as measured by the S&P/Case-Shiller 20-City Composite Home Price Index, posted record declines of 18.0% annually through October. The ongoing flight to quality persisted during the fourth quarter as 3-month Treasury yields declined from 0.92% at the end of September to 0.11% at the end of December. Likewise, 10-year Treasury yields declined from 3.85% in September to 2.25% at the end of the quarter.

With seismic disruption of the capital markets during the fourth quarter, the Volatility (or “fear”) Index (VIX) reached record levels in October and November, while much of the world no longer remained immune to what has become a global recession. Congress passed the Troubled Assets Relief Program (TARP) in October; paving the way for a much-needed and well-publicized injection of capital into many struggling banks. During the fourth quarter, Wells Fargo outbid Citigroup and acquired Wachovia, thus preventing the Charlotte bank from failing. Citigroup also sought assistance from the U.S. government, which injected Citigroup with an additional $20 billion and guaranteed hundreds of billions of risky assets. A $17.4 billion bailout of the U.S. automakers was approved in December in order to prevent the automakers from filing for bankruptcy. During the same month, investors also learned that Bernard Madoff’s Investment Securities LLC was in fact a ponzi scheme that had defrauded investors by approximately $50 billion dollars across the globe. These market events led to bleak performance in the fourth quarter.

Despite a slight rebound in December, overall investment performance during the fourth quarter was remarkably dismal as equity and other markets suffered significant losses. The large cap domestic equity market, as measured by the Russell 1000 Index, declined 22.5% in the fourth quarter. All sectors posted losses during the quarter, while the financials (–35.1%) and materials (–31.7%) sectors experienced the greatest declines as many financial firms struggled for viability and commodity prices plummeted. The telecommunications (–4.7%) and utilities (–10.8%) sectors fared best during the quarter. Small cap stocks, as measured by the Russell 2000 Index, lagged their larger counterparts and declined 26.1% during the fourth quarter. Value modestly outpaced growth in both the large and small cap markets during the quarter. Over the year, the Russell 1000 Index returned –37.6% while the Russell 2000 Index posted a –33.8% return.

The international equity markets continued their sharp decline during the fourth quarter, dropping 19.9% in U.S. dollar terms as measured by the MSCI EAFE Index. In local currency terms, the index declined 18.5%, as the U.S. dollar continued to appreciate against other developed-country currencies. Every country in the MSCI EAFE Index saw declining returns during the fourth quarter. Austria and Greece were the worst performers among developed markets, losing 43.2% and 41.0% respectively in U.S. dollar terms. Japan, with a strong currency during the quarter, fell only 9.0% in U.S. dollar terms despite dropping 22.3% in local currency terms. Emerging markets equities fared even worse than their developed counterparts during the quarter, declining 27.6% in U.S. dollar terms as measured by the MSCI EM Index. Currency translation had a significant impact as the index returned –22.0% in local currency terms. Russia and Pakistan performed the worst, losing 51.3% and 50.4% of their value respectively in U.S. dollar terms during the quarter. China, on a relative basis, performed the best out of the emerging-market countries, losing 10.8% in U.S. dollar terms. Over the year, international equity markets lagged the domestic market as the MSCI EAFE returned -43.1% and the MSCI EM Index returned –53.2% in U.S. dollar terms.

As a result of the sale of the Lehman Brothers fixed income platform to Barclays Capital, the Lehman's fixed income indices have now been renamed under the Barclays Capital brand. The fixed income market, as measured by the Barclays Capital U.S. Aggregate Bond Index, posted a strong 4.6% return during the fourth quarter. Longer-term issues outpaced shorter-term issues during the quarter, as the Barclays Capital Long-Term U.S. Government/Credit Index gained 13.1%. An intensifying flight to quality resulted in Treasuries outperforming the rest of the market as they returned 8.8% as measured by the Barclays Capital U.S. Treasury Index. Investment-grade corporate bonds also added value as the Lehman Brothers U.S. Corporate Bond Index returned 4.0%. Consistent with the flight-to-quality theme, AAA issues significantly outperformed lower-quality issues. High-yield bonds declined 17.9% during the fourth quarter, as measured by the Barclays Capital U.S. Corporate High Yield Index. Mortgages, as measured by the Barclays Capital Mortgage-Backed Securities Index, gained 4.3% during the fourth quarter.

Large Cap Core Equity Index – Alliance Capital Management (Passive)

Alliance held $429.7 million at the end of the quarter, representing a $127.8 million decrease since September 30, 2008. This decrease was largely due to investment losses.

The manager tracked the Russell 1000 Index within 20 basis points for all periods shown.

Enhanced Large Cap Core Equity Index – Westridge Management

Westridge managed $63.8 million in assets as of quarter-end, a decrease of $18.0 million from the previous quarter end.

Westridge outperformed the Russell 1000 Index but underperformed the Mercer US Equity Large Cap Core Universe median for the quarter. This account was funded in June 2008; performance tracking began July 1, 2008.

Enhanced Large Cap Core Equity Index – BlackRock Financial Management

As of quarter-end, BlackRock Financial Management managed $61.1 million in assets, a decrease of $17.4 million since the previous quarter-end.

For the quarter, BlackRock underperformed the S&P 500 Index, its primary benchmark, but outperformed the Russell 1000 Index, its secondary benchmark. The fund also underperformed the Mercer US Equity Large Cap Core Universe median. BlackRock was funded in July 2008. Performance tracking began August 1, 2008.

Favorable allocation and stock selection in the energy, industrials, and financials sectors contributed positively to performance for the quarter. Stock selection in the materials sector also helped returns. Individual contributors to performance included: Wachovia, Apollo Group, Sunoco, W R Berkley, and Annaly Capital Management.

An overweight allocation and poor stock selection in the consumer discretionary sector, combined with poor stock selection in the health care sector, detracted from performance during the quarter. Individual detractors included: Liz Claiborne, American Capital, and CB Richard Ellis.

News Item (December 9, 2008): BlackRock announced that Barbara Novick will be stepping down from her operating responsibilities at the firm for personal reasons. She has agreed to remain in her role as vice Chairman but will be stepping down from her leadership position in the Account Management Group (AMG). Novick is a founding member of BlackRock and is responsible for creating the AMG. Robert Fairbairn (vice chairman and head of International) will be succeeding Novick as head of the AMG. Fairbairn has been a member of BlackRock's Executive Committee since the 2006 BlackRock/MLIM merger.

Mercer View

Barbara Novick's departure does not change Mercer's perception of BlackRock's fixed income and equity strategies. This development doesn't warrant any ratings change or give Mercer a sense of uneasiness regarding the future of the firm. The succession plan in place is reasonable. The reshuffling of a few employees to fill the roles previously filled by Novick and Fairbairn does not impact day-to-day fixed income or equity portfolio management. In addition, Novick has agreed to stay on as vice chairman, so BlackRock will be able to continue drawing upon her knowledge when necessary.

News Item (January 12, 2009): Bank of America assumes Merrill Lynch's 49% economic stake in BlackRock January 1, 2009. BlackRock retains its quote on the NYSE. Bank of America will have a voting interest on only 4.9% of the stock, with PNC having 47%. The balance of voting rights is with other stock holders. Mercer understands that certain key individuals have equity with disproportionately high voting rights. This includes individuals such as Larry Fink. Mercer asked for more detail on this.

When Merrill first considered selling a part of BlackRock prior to the Bank of America takeover, BlackRock managed to negotiate some change of control clauses, which effectively diminished the voting rights of any purchaser. This was a meaningful negotiation for BlackRock and underscores the firm's commitment to maintaining its autonomy.

That said, Bank of America also recognizes some advantage in its reduced voting rights. With fewer than 5% voting interest, Bank of America and BlackRock can treat each other as separate entities and do not have to worry about various pieces of legislation concerning how associated companies need to treat each other and clients.

The shareholder agreement does seem to help maintain BlackRock's independence. Bank of America is not permitted to increase its ownership of BlackRock and the amount of stock that they can sell either privately or publicly is restricted: BlackRock stock sales must be coordinated with the BlackRock Board until September 2009 and BlackRock has rights of last refusal on any private sale.

Bank of America is required to vote their BlackRock shares in accordance with the Board's recommendation. This agreement remains in place until the later of 2013 or when Bank of America's stake in BlackRock falls below 20%.
BlackRock's global distribution agreement with Merrill has been extended until the fifth anniversary of the close of the Merrill/ Bank of America transaction.

Mercer View

We need to follow up on the position on voting rights. A period of ownership stability would be most welcome. That said, the implications of this transaction do not cause us undue concern at the firmwide level. Investors need to be aware that BlackRock maintains a variety of staff incentive plans that vary by investment team. It is the effectiveness of various plans that is of as much importance as any firmwide issues. There will be no rating changes as a result of the change of ownership.

News Item (January 12, 2009): At the end of 2008, the U.S. Federal Reserve selected BlackRock to be one of four investment managers for its $500 billion mortgage-backed securities (MBS) program. The buying program is reported to have started during the first week of 2009. According to BlackRock, the business was awarded to the firm's Financial Market Advisory (FMA) group, not to BlackRock's flagship fixed income investment team.

Mercer View

The FMA was formally set up in 2008 to handle business related to investment management and disposal of "toxic" mortgage securities. FMA is part of BlackRock Solutions, not BlackRock the asset management company. BlackRock assures us that no personnel changes are happening on the investment team/trading desk. Therefore, we do not believe a change in ratings to be warranted given this news.

<u>Large Cap Equity Active Extension (130/30) – JPMorgan Asset Management</u>

JPMorgan Asset Management held $42.4 million at the end of the quarter, representing a decrease of $10.8 million.

JPMorgan outperformed the Russell 1000 Index and ranked in the top quartile of the Mercer US Equity Large Cap Core Universe for the quarter. This account was funded in July 2008; performance tracking began August 1, 2008.

Research Note (January 28, 2009): We continue to think highly of JPMAM's Large Cap Core and Large Lap Core 130/30 products. The analysts' fundamental research and Luddy's stock-picking abilities remain the products' primary strengths. Both portfolios are run in a risk-controlled way and the ability to short continues to benefit the 130/30 product in its ability to more actively implement the investment team's ideas in the portfolio without sacrificing diversification. The level of active risk in the Large Cap Core product continues to border on enhanced index, which prevents us from assigning a higher rating on the strategy.

Luddy believes the sharp downturn in the markets has created an opportunity to take on more risk in the 130/30 portfolio. However, most of the risk is being taken on the long positions rather than increasing the short exposure. The portfolio ran at a relatively low short position in 2008, and stood at 16% at the end of the year. Luddy explained that he chose to avoid the volatility in the short positions. He also stated that the steep drop in equity prices and the increased cost of shorting has reduced the team's potential pool of short ideas. He is adding small and diversified positions in riskier stocks where the team feels it is being sufficiently compensated for taking on the risk. Luddy doubts the portfolio's short position will ever reach the 30% implied in the product name, but he feels he is able to use the ability to short in an effective way at lower levels.

Assets in the 130/30 product dropped to $8.4 million at year-end because of market depreciation. Capacity on the product remains at $10 billion, so the product remains open. JPMAM will offer the open capacity to current clients before participating in any new searches, but product specialist Eileen Cohen believes there will be open capacity remaining for new clients later in the first quarter of 2009. However, Cohen stated that the firm will not accept any new separate accounts because of the complexity of the tri-party agreements necessary with the prime broker and the recent steep increases in brokerage costs associated with separate accounts. Consequently, all new clients will be allocated to the commingled vehicle.

The current economic environment has impacted JPMAM's business operations on the margins. The firm instituted a hiring freeze early in 2008, but avoided a large-scale reduction in staff. However, there were several changes to the analyst team over the course of 2008. REIT analyst Scott Blasdell left the team to become portfolio manager on JPMAM's REIT index product, insurance analyst Terry Shaw retired after 30 years with JPMAM, REIT analyst Raya Sokolyanska left the firm, and utilities analyst Chris Carlucci stepped down from his analyst position. Cohen stated that the departures were a product of JPMAM's performance-ranking system. Additions to the team include insurance analyst David Small, REIT analyst Julie Ho, and Jackie Flake, who moved from her portfolio manager position on another product back to the research group to cover infrastructure. Small joined from BSAM just after the announcement of the merger, and his hiring was unrelated to the transaction. Flake will be assigned coverage of the utilities sector as a subcomponent of Infrastructure. Some turnover is expected on a team of this size, so the changes are not a concern. Also, changes to the REIT and utilities areas, sectors that have recently experienced the worst relative performance, show that JPMAM continues to use the analyst performance ranking system and hold people accountable for results. JPMAM appears committed to avoiding the mistakes of the past, which included holding on to underperforming analysts too long.

We met briefly with energy analyst Nishesh Kumar to get his views on opportunities within the sector. As with other members of the analyst team, we were impressed by Kumar's market insights on both the sub-industries and companies within the sector. Kumar had a clear investment thesis and catalyst on every name we discussed. He cited a bullish view on oil producers and natural gas companies that have exposure outside North America, while avoiding refiners and North American natural gas companies. Although he explained that stocks are analyzed on a bottom-up basis, he acknowledged that many stock-specific risks were being driven by macro issues like a firm's ability to access credit markets and its exposures to different global markets. However, the portfolio clearly reflected Kumar's investment insights while maintaining significant diversification in the sector, which is the strength of Luddy's investment approach.

Luddy stated that the SEC's temporary ban on shorting instituted in the fall of 2008 had little impact on the portfolio. The team had eliminated many of its short positions in the big banks and brokers earlier in the year, and performance was not severely impacted by the market run-up in those names after the announcement. However, the credit crisis has caused JPMAM's shorting costs to rise significantly. Cohen told us that average prime brokerage borrowing rates have increased 300% from their 2007 levels and currently average about 120bps to 200bps per name. This increase in expenses is reducing the pool of potential short ideas. State Street Bank is starting a prime brokerage arm and JPMAM is currently performing due diligence on the model. Cohen believes that if the model passes the review and is implemented, it could lower the shorting cost for the strategy. (Note: JPMAM is not allowed to use the Bear Stearns Prime Brokerage arm it acquired in 2008).

The integration of Bear Stearns Asset Management (BSAM) in June was a non-event for JPMAM. BSAM strategies experienced a dramatic reduction in asset levels prior to the purchase, and there was almost no impact on JPMAM's asset level as a result of the final transfer. Very few BSAM employees joined JPMAM, but Cohen told us the fixed income team in Columbus, OH gained a few new members.

JPMAM incepted another alpha extension product in the large cap core space in August 2007 and is now bringing the product to market. Although we did not discuss the details of the strategy, Cohen told us the research 140/40 strategy is benchmarked against the Russell 1000, holds almost 300 stocks, and is marketed as an enhanced index product. The strategy utilizes the analyst group's research, but Luddy is not involved in the management of the product, so we are not concerned about it being a distraction

Issues to Watch
Will shorting costs decline and increase the potential universe of short ideas?

Will JPMAM adhere to the $10 billion stated capacity? The firm was diligent in holding to its $10 billion capacity previously, but a rebound in equity prices could easily push them over that number.

Large Cap Equity Active Extension (130/30) – UBS Global Asset Management

UBS managed $40.5 million at quarter-end, a decrease of $15.3 million from the previous quarter end.

The fund underperformed the Russell 1000 Index and placed in the bottom decile of the Mercer US Equity Large Cap Core Universe. The account was funded in July 2008. Performance tracking began August 1, 2008.

Large Cap Equity Active Extension (130/30) – Barclays Global Investors

Barclays Global Investors held $42.0 million in assets at quarter-end, representing a decrease of $11.4 million.

For the quarter, the portfolio outperformed both the S&P 500 Index and the Mercer US Equity Large Cap Core Universe median. The account was funded in July 2008. Performance tracking began August 1, 2008.

News Item (January 19, 2009): BGI has announced a 9% global staff reduction, which is about 300 to 350 positions. The cuts were made across all areas of the firm, but mostly at the junior levels or in positions that were tied to projects BGI is no longer pursuing. According to our contact at BGI, the firm is back to 2007 staffing levels. The group hardest hit was IT, with Active Equities in second place. Certain areas of the firm still have open headcounts, and BGI will continue to hire to fill those spots.

Although the Active Equities team is smaller overall, the research team has increased in headcount with the addition of researchers from other areas of the firm. In conjunction with the staff reduction, the Active Equities group was also reorganized into a more global structure. Morry Waked, currently CEO and head of Equities in Australia, will take on the position of head of Active Equities and CIO, and Naozer Dadachanji will take on the position of head of Active Equities and COO. They will report directly to Minder Cheng, CIO of

Equity and Capital Markets. Waked and Dadachanji will be jointly accountable for the Active Equities business but will have different responsibilities within the team.

In the previous structure, the Active Equities team was organized on a regional basis. With the new global structure, the following changes have been made and all will report to Waked and Dadachanji as follows:

Ron Kahn and S.P. Kothari will take on the role of Global heads of Equity Research. They will lead Research teams globally and have a dual report to Richard Grinold.

Raffaele Savi, Global head of Active Equity Portfolio Management, will lead Portfolio Management teams.

Russ Koesterich, global head of Active Equity Strategy, will lead Strategy teams.

Craig Squires, global head of Equity & Capital Markets IT, will lead Active Equity IT teams.

Jalal Akhavein, global head of Investment Analytics and Information Management, will lead Quantitative Investment Processes and Investment Data teams.

These organizational changes will also lead to new roles for Nico Marais, previously head of Active Equity in Europe, and Jonathan Howe, previously co-head of Active Equity in San Francisco. Marais will take on the role of global head of Investment Strategy in BGI's Client Solutions business. Howe will remain in Active Equities and lead regional research efforts under Kahn and Kothari. Ernie Chow, previously co-head of Active Equity in San Francisco with Howe, will be leaving the firm.

As a result of the appointments above, there have been a series of other promotions at the individual-product level. These will be picked up by the relevant Mercer researcher in due course.

Mercer View
The staff reduction is not a surprise given the current market environment, and Mercer does not expect this to drastically affect BGI's operations. As for the Active Equities reorganization, on the surface it makes sense for BGI to be more global, although Mercer will be discussing the changes in greater depth at our next meeting. From initial discussions with BGI, Mercer does not expect significant changes in the way active equity portfolios are managed given the firm's quantitative process.

Large Cap Growth Equity – Wells Capital Management

As of quarter-end, Wells Capital managed $77.3 million, a decrease of $27.8 million since September 30, 2008.

Wells Capital underperformed the Russell 1000 Growth Index and Mercer US Equity Large Cap growth Universe median for the quarter. Wells Capital was funded in April 2008 to replace Independence. Performance tracking began May 1, 2008.

Research Note (August 11, 2008): We continue to have full confidence in the Wells Fundamental Growth team. Portfolio manager Tom Pence demonstrated a through understanding of the upside and downside risks of each stock we discussed. This was highlighted in our discussion of First Solar, a substantial position in the Large Cap, Large Cap Select, and Mid Cap portfolios. Pence agreed that by conventional measure First Solar looked expensive (P/E 90+), but he explained the team's investment thesis and how the company's growth prospects made it an attractive opportunity. The depth of Pence's analysis on how the stock would benefit from an industry-leading product, growing demand, and potential post-election regulatory changes was impressive. However, he was also realistic and noted that the stock's valuation and the need for external drivers were risks that caused the team to monitor the name closely. Portfolio manager/analyst Mike Smith and analyst Sid Dhanda also displayed the thoroughness of the team's research in discussing the industries and stocks they covered. Overall, we believe the quality of the team's research is the products' key differentiator and we remain fully confident in the ability of the strategies to outperform over a full market cycle.

The team's process continues to allow the portfolios to display adequate levels of both conviction and diversification. For example, Pence explained that the team sees strong headwinds for consumer-related names and has therefore underweighted that exposure in all portfolios. However, he acknowledged that this leaves the portfolios exposed to a rebound in consumer spending. Consequently, the portfolios continue to hold a reasonable weight in consumer-related stocks the team believes will hold up better while they diligently monitor other companies' fundamentals for signs of an improving outlook. It is clear that while the team considers the macro environment, there is no attempt to forecast the future and all holdings are driven by the team's bottom-up fundamental research.

Pence renewed the team's contract with Wells Fargo in mid-2007. The new contract continues into perpetuity, although senior members of the investment team have non-compete agreements that run through 2010. All other terms of the new agreement are identical to those in the previous contract. We believe the new contract provides continued stability for the team. Pence expressed his complete satisfaction with Wells Fargo's commitment to the products and the services they provide. The parent company allows the team substantial autonomy while giving it access to substantial resources, including a strong distribution network for the products. Overall, we believe that the team's relationship with Well Fargo remains strong.

There has been one departure from the investment team since our last meeting. Sunjay Goel, who covered the software and transportation industries, left the team in September 2007. The split from the team was by mutual agreement between Pence and Goel. Although Pence thought highly of Goel's analytical abilities, he felt that Goel was becoming more isolated and less collaborative with the other team members. Goel's departure highlights the emphasis Pence puts on teamwork throughout the research process. There are weekly meetings where ideas are challenged among the team members as well as daily ad hoc meetings between analysts. Analysts are expected to gain insight into the differing perspectives of others to completely understand the issues facing the companies they cover. We think highly of the team's process, but its highly interactive nature is ill suited for someone who prefers to work alone, which appears to have been the case with Goel.

Prior to Goel's departure, Pence hired Chris Warner to help in covering the technology sector. Warner had five years of experience as an investment analyst and joined Wells from Citigroup, where he covered software, systems management, and data storage. We believe that Warner and fellow technology analyst Trevor Moreno provide the strategies with sufficient coverage for Goel's industries. Pence stated that he prefers to be overstaffed with respect to research coverage, which is somewhat atypical for a self-sufficient team. Pence believes that excess capacity enables the team to handle special projects and increases its flexibility in the event of a departure. In addition to Warner, Wells hired Chad Fugere to cover the health care sector in early 2008. Fugere worked as an investment analyst at Wachovia prior to joining Wells. The investment team continues to grow at a measured pace. We are impressed by Pence's ability to attract experienced analysts to the Indianapolis-based team and his ability to balance research coverage among the team members to efficiently cover multiple cap spaces.

In other team changes, portfolio specialist Frank Esposito left the team and was replaced by Tom Meyers. Meyers worked with Pence at Conseco Capital Management and appeared fully acclimated to the team's process and its strategies during our meeting. In addition, analyst Sid Dhanda was assigned responsibility for the industrial sector. Dhanda joined the team in 2005 as a generalist and gained broad exposure to a variety of industries. Over time, Dhanda focused on the industrial sector and was assigned coverage of the sector in early 2008. Pence explained that this is the typical development path for generalists and that he feels it broadens their investment abilities.

We are proposing a slight upgrade to the rating of the Large Cap Select Growth strategy to bring it in line with the ratings on the team's other large- and mid-cap growth products. In the past, we questioned the team's ability to add value in the small-cap space. We have since gained confidence in the team's fundamental research across capitalizations. The strategy benefits equally from the same investment process and strong fundamental research as the other A-rated strategies. We also believe the team diligently employs a ranking process for investment ideas and gives detailed attention to ensuring that only its best ideas make up the Select portfolio, while maintaining reasonable diversification. We retain a tracking error designation on the strategy due to the portfolio's higher level of concentration.

Large Cap Growth Equity – INTECH

INTECH held $82.2 million in assets at quarter-end, representing a decrease of $27.3 million since the previous quarter-end.

The fund underperformed the Russell 1000 Growth Index and the Mercer U.S. Equity Large Cap Growth Universe median for all periods evaluated. Since inception, in October 2006, the fund has returned –17.3% versus –14.9% for the index.

Detracting from performance during the quarter were the fund's unfavorable allocation and stock selection in the energy, materials, and industrials sectors. Poor stock selection in the health care and consumer staples sectors also hurt performance.

An underweight allocation to information technology and consumer discretionary added to performance during the quarter. Favorable stock selection in financials also benefited performance.

Research Note (November 25, 2008): The meeting served as our annual update on INTECH's U.S. equity strategies and provided an opportunity to meet Dr. Robert Fernholz and his team of PhDs at the firm's research facility in Princeton, NJ. Previous meetings have been held in Palm Beach Gardens, FL, where portfolio implementation and other operational functions are housed. Though the Princeton office is small, currently comprising four academicians and an administrative staff, it serves as the central backbone to all facets of the firm's investment process, including idea generation, research enhancements, and testing/simulations.

A good portion of the meeting was spent discussing the firm's succession plan and Fernholz's future intentions subsequent to his contract expiration in 2011. According to Fernholz, he plans to remain as a consultant to the firm at the end of his contract. We believe former co-CIO Dr. Cary Maguire was originally slated to become the firm's CIO when Fernholz relinquishes his reins, but the announcement of Maguire's departure in April 2008 raised questions as to who would be the next likely successor. Fernholz stated that the firm is shortly expected to announce a new co-CIO, with whom he will work closely over the remaining years of his contract to ensure an orderly and seamless transition. While INTECH is not at liberty to disclose who this person is, we suspect that Adrian Banner, senior investment officer, is a likely candidate given his tenure with the firm and his deep understanding of the philosophy and process. He did most of the talking during the meeting, and it was evident that he is very well entrenched in all aspects of INTECH's mathematical approach and implementation. Banner also presented himself in a way that communicated his preparedness in taking that next step of becoming co-CIO. Our initial impression of Banner is positive, and we believe he possesses the ability to lead the firm's next generation of research professionals if he does get selected.

At our last meeting, INTECH expressed intentions of adding several PhDs to the team in Princeton to further deepen its bench as part of its broader succession efforts. The team has since filled one position by hiring Dr. Phi-Long Nguyen-Thanh, associate director of Research, in September 2008. We also expect the firm to formally announce the addition of a senior academician by year-end, though this person has already been identified and is expected to join the team in 2009. Fernholz is seeking to round out the six-member research team with the addition of a relatively unseasoned PhD before the end of 2009. Though Maguire's official departure in October 2008 did not appear to disrupt the team's process or create a void within the team, the planned staff additions are expected to bring insight and breadth to the existing talent base as well as to assist in the rudimentary tasks of running experiments and simulations. With an expected total of six research professionals in 2009, the team will be fully staffed yet small enough to stay focused on its research priorities. As expected, INTECH recently added a programmer to the trading team in Florida. Fernholz also confirmed the firm's plan to hire one to two more finance PhDs in Florida, who will be more involved with traditional portfolio analysis as opposed to theoretical research.

According to Fernholz, Nguyen-Thanh and the future hires are subject to a two-year training period where they are fully engaged in the firm's philosophy and process and gradually exposed to INTECH's proprietary code. He claimed that this extended period of time will not only help the individuals become fully acclimated to the core of what drives the process but also will safeguard the proprietary model and the team's intellectual capital in the event one decides to leave the firm within a relatively short time frame. We do not believe this approach would hamper the development and understanding of the actual model as we would fully expect the individuals to be up and running at the end of the two-year period, generating new ideas and initiating new research projects specific to the model.

INTECH's mathematics-based investment process continues to be concerned with maintaining active risk controls in its attempt to capture relative volatility and alpha targets. Since we last met with the firm, there have been no changes to the covariance matrix estimation process or the general approach that drives portfolio construction. The team did institute, however, an enhancement to its trading and implementation platform that was designed to introduce more randomization to the trading process. While trading every six days for each of the portfolio tranches allows for a mix of trading days in any given week, this latest enhancement attempts to avert information leakage by further breaking up the trading pattern – through the expansion of trading intervals – without negatively impacting performance. As described by Banner, the Princeton team extensively involved Florida's trading team in testing this recent implementation, a process that we expect to see happen in advance of any noteworthy enhancements.

Aside from the implementation update, the research team continues to seek ways to enhance its existing strategies and process, specifically as they relate to the estimation of stock correlation and volatility. In all cases, we expect tweaks and enhancements to be implemented in a gradual manner over time. Banner also indicated an interest in gaining a better understanding on overall market structure and enhancing the simulation engine that drives testing. It is for the latter reason that the team does not utilize dedicated information technology or systems personnel. Having each team member become familiar with the firm's proprietary systems not only helps diversify responsibilities but also enables the team to tailor research in ways that serve its intended purposes without relying on an expert. The fact that the existing team is also made up of computer programmers facilitates the all-encompassing research process. We believe this was a large contributing factor to the team's seamless resumption of Maguire's research agendas and projects upon his departure.

Issues to Watch

Fernholz and Garvy have employment contracts in place until the end of 2011, a point that marks the likelihood of the firm's transitioning its research team to the next generation of thought leaders. The firm plans to add several more PhDs in anticipation of the transition, and while we view this positively, it will take some time for them to become entrenched in the INTECH process. We also expect the announcement of a co-CIO in the near future. This person will be working closely alongside Fernholz over the next several years to ensure a seamless transition.

News Item (December 15, 2008): As part of the firm's long-term succession plan, INTECH announced that Jennifer Young, president, will assume the role of co-chief executive officer and that Dr. Adrian Banner, senior investment officer, will become co-chief investment officer effective January 1, 2009. Young and Banner will work alongside Dr. Robert Fernholz and Robert Garvy in executing this leadership transition.

INTECH also announced that Dr. Ioannis Karatzas will serve as Distinguished Researcher in the firm's Princeton research facility and will join the team on January 1, 2009. Karatzas earned his PhD in mathematical statistics at Columbia University and has served as INTECH's exclusive consultant for more than six years. His new role will entail working with the Princeton-based research team on theoretical and mathematical matters core to INTECH's process and he will report to Dr. Fernholz.

Mercer View
Mercer is not surprised by this news as we fully expected INTECH to announce the next step in its succession plan by the end of 2008. Subsequent to our onsite visit in November 2008, it was fairly evident that Banner would become the successor to Fernholz, and this news confirms our suspicion. We also expected the firm to formally announce the addition of a senior academician by year-end. Karatzas is soon to be integrated into the research team, and we believe his addition will bring valuable breadth to the existing talent base. Given that he has served as the firm's consultant for a number of years, his familiarity with the investment process should help with his transition.

This announcement does not change our rating on the firm's highly rated strategies. We will make a point to discuss this topic in greater detail during our next due diligence meeting.

Large Cap Value Equity – LSV Asset Management

LSV managed $69.8 million in assets at quarter-end. This represented a decrease of $22.1 million since the previous quarter-end.

The fund underperformed the Russell 1000 Value Index and the Mercer US Equity Large Cap Value Universe median for all periods evaluated except since inception. The fund has returned –1.8% since inception versus the index return of –2.6%.

Unfavorable allocation and stock selection in the materials, consumer discretionary, and information technology sectors detracted from performance during the quarter. Poor stock selection in financials also hurt performance. Individual detractors included Prudential Financial, Seagate Technology, and Harley Davidson.

The fund's favorable allocation and stock selection in health care and utilities benefited results for the quarter as did the fund's underweight position in consumer staples. Individual contributors to performance included Sunoco, Chevron, and Pfizer. A lack of exposure to General Electric also added to performance.

News Item (January 9, 2009): LSV has informed Mercer that it will re-open three of its value strategies because of market declines. The strategies include the US Large Cap Value ($5 billion in open capacity), Non-US Large Cap Value ($3 billion in open capacity), and Emerging Markets Value ($500 million in open capacity).

Mercer View
The US Large Cap and International Large Cap Value are A–, while the Emerging Markets Value strategy is B+. This announcement does not impact our view on any of the three strategies. Assets in the US Large Cap Value and Non-US Equity Value have declined approximately 26% and 29% respectively since January 2007, while assets in the Emerging Markets Value strategy have declined approximately 36%.

Large Cap Value Equity – Pzena Investment Management

Pzena managed $65.6 million in assets at quarter-end. This represented a decrease of $23.0 million since the previous quarter-end.

Pzena underperformed the Russell 1000 Value Index and placed in or near the bottom decile of the Mercer US Equity

Large Cap Value Universe median for all periods evaluated. Since inception, the fund has returned –8.0% versus the index return of –2.6%.

The fund is highly concentrated, holding less than 50 names; more than half of its holdings posted double-digit losses for the quarter. The fund's unfavorable allocation and stock selection in consumer discretionary and financials weighed heavily on performance during the quarter. Unfavorable allocations to technology and stock selection in consumer staples also had a negative impact. Individual detractors included Magna International, Bank of America, Whirlpool, Citigroup, and Alcatel-Lucent.

Favorable allocation and stock selection in energy and industrials added to returns. An overweight allocation to health care and the fund's lack of exposure to the materials sector also helped performance. Individual contributors included BJ Services Co., Fidelity National Financial, Wellpoint, and Bristol-Myers Squibb.

Research Note (December 9, 2008): This on-site meeting served as a follow-up to the October meeting held in our office with Rich Pzena. We wanted to address the portfolio construction issues highlighted during the October meeting, get a better understanding of the team dynamic in place for making portfolio management decisions, and reconfirm our level of confidence in the firm's research process. This meeting accomplished each of these objectives.

The overriding lesson Pzena learned as a result of its underperformance was how it sizes positions in light of market sentiment. In examples such as Freddie Mac and Fannie Mae, Pzena acknowledged that its sizing relied too heavily on its traditional framework and did not properly discount the impact of excessive leverage and the negative market perception. We feel that the firm has taken this lesson to heart.

The firm has taken steps to address the portfolio construction issues that have contributed to the underperformance of its value strategies. A full portfolio review was performed to examine the ability of portfolio companies to finance debt. Pzena reduced position sizes of holdings with high leverage, as well as reduced exposure to the financial sector overall. For example, individual positions in financial companies have been reduced from 4% to 5% of the portfolio to 2% to 4%. Overall exposure to the financial sector has been reduced by 10% to 12%. In addition, Pzena has opted for companies that have less leverage and stronger balance sheets in non-financial areas, such as technology holdings Dell and Motorola.

The position-sizing decision is determined by discussions among the three co-portfolio managers; however, all investment professionals can contribute to the conversation. Each of the co-PMs has veto power for sizing decisions. Four factors are taken into consideration when sizing positions: cheapness based on Pzena's normalized earnings estimate (most significant factor), level of industry confirmation, degree of uncertainty, and if all else is equal, level of diversification a stock provides to the portfolio. Caroline Cai, the analyst who follows Freddie Mac and Fannie Mae, stated there was much debate surrounding the sizing of both positions, but that ultimately the team agreed with the position sizes based on the extensive scenario analysis performed on the loan losses. Clearly, Pzena missed the federal government's intervention until it was too late.

We do feel the team could be more diligent in fully exiting positions. Positions can remain in the portfolio at small weights after significant market depreciation. While the team attributes this to positive risk/reward potential, we would prefer that holdings represent a higher level of conviction. In discussing several of the portfolio holdings, including Wachovia, we were convinced that there is a high degree of rigor in the investment research and that the firm continues to be consistent in following its investment process. We reconfirmed our conviction in Pzena's fundamental research and feel that its strategies continue to be among our best ideas in the deep value space.

We are also confident about the stability of the team, despite the significant recent underperformance and subsequent asset outflows. Firm assets have declined from $28 billion in October 2007 to $12 billion in October 2008. Most of the decline was due to market performance; however, September 2008 was the worst month for client withdrawals as the firm experienced approximately $1 billion in net outflows. Rich Pzena stated that subsequent to mid-October, outflows have been very minimal. Although investment team members were disappointed with performance, the morale appears to be strong and the conviction in the firm's process was shared by all investment members we met.

Due to the reduction in assets, the firm reduced staff by 10%, with most of the staff cuts occurring to back-office personnel. Only one investment team member was terminated, and that analyst was a junior member who was reportedly not a good fit. All 26 partners met and were given the option of reducing compensation or reducing staff further, and the partners unanimously agreed on taking pay cuts. This will result in the most senior members experiencing a 50% reduction in compensation. Lower- to mid-level investment professionals will likely receive a 10% increase from last year (which compares to previous years' increases of 30% to 50%). Pzena strives to be in the top quartile of compensation relative to its peers. While investment staff has been asked to be smarter about their travel expenses, no restrictions are in place and in fact researchers have been encouraged to travel more.

Issues to Watch

Firm Assets – Assets under management have declined significantly because of a combination of client redemptions and market losses. While we do not believe current investment resources have been impaired, we would like to assess the impact of any further declines in asset levels. Rich Pzena shared that the breakeven point for operating the firm is approximately $5 billion in assets.

Position Sizes – It appears that the team has taken its lessons learned to heart in reducing position sizes of companies with higher leverage that have the potential to be more severely impacted by negative sentiment. We would like to monitor the position sizes of companies to ensure that the team continues to take this risk into consideration. In addition, portfolios can have small positions in holdings that have severely disappointed, but are maintained in the portfolio because they are attractive from a risk/reward standpoint. This may be an indication that Pzena finds it difficult to admit mistakes. We have high regard for Pzena's research, and believe a high-conviction approach most appropriately captures Pzena's insights.

Investment Professional Retention – The firm increased its investment staff approximately four years ago when it introduced international products. How committed will these individuals be given they have not previously experienced a period of underperformance at the firm?

Small Cap Growth Equity – O'Shaughnessy Asset Management

O'Shaughnessy managed $29.5 million in assets at quarter-end, a decrease of $10.9 million from the previous quarter-end.

O'Shaughnessy outperformed the Russell 2000 Growth Index but underperformed the Mercer US Equity Small Cap Growth Universe median for the quarter. The fund has underperformed both benchmarks for 1 year. Since inception, in August 2006, the fund has returned –26.1% versus the index return of –11.6%.

Performance was driven by a significant underweight allocation coupled with favorable stock selection in the information technology sector, as was the case in financials. An underweight position in energy and health care also contributed positively to performance for the quarter. Individual contributors included World Fuel Services, Hot Topic, American Italian Pasta, Insituform Techs, and Granite Construction.

Stock selection and overweight positions in the materials and consumer discretionary sectors detracted from performance. The portfolio's overweight allocation to industrials and consumer staples also hurt returns. Individual detractors included Gibraltar Industries, Diamond Foods, CONMED, Hawaiian Electric Industries, and Westinghouse Air Brake Technologies.

Research Note (May 12, 2008): Jim O'Shaughnessy formed OSAM in 2007 after deciding to leave Bear Stearns Asset Management (BSAM). Latimer stated that BSAM's lack of marketing support on many of the team's smaller strategies and the lack of support from senior management for O'Shaughnessy's new-product ideas were the primary reason for that latter's leaving BSAM. Many of O'Shaughnessy's strategies competed with current BSAM strategies, which explains the lack of marketing support.

Of the original BSAM team, 14 of the 15 members left with O'Shaughnessy to start OSAM. This is not surprising as BSAM's boutique structure left the team members very few employment options at Bear Stearns. Portfolio specialist Avi Gelboim did not to move to OSAM and chose to pursue other opportunities outside of BSAM. None of the employees currently has an equity ownership in the new firm.

The OSAM investment team consists of Jim O'Shaughnessy, Bill Latimer, Chris Meredith, Patrick O'Shaughnessy, and Amar Patel. This team has significantly less experience than the members at BSAM and we feel the team may be under-resourced to run the number of products they currently have open. Since the team's departure from BSAM, the investment team has undergone significant changes. Many of the senior members have been reassigned to other duties and were subsequently replaced with less experienced members. Of the current investment team, Patrick O'Shaughnessy dedicates the majority of his time to doing legwork for the new investment strategies and methodology. Patel comes from a programming background and dedicates his time to programming needs instead of research. Previously, Whittier Penski and Tom Rawlings were part of the BSAM investment team, but now have different responsibilities within OSAM. Rawlings is responsible for portfolio implementation and Penski is no longer with the firm. The only consistent members of the investment team are Jim O'Shaughnessy and Chris Meredith. The reason for these changes is still unclear and we need to monitor the stability of the team going forward.

In addition to the current product line-up, the firm plans to launch international strategies that will only add to the responsibilities of the team. With recent underperformance, we would like to see a focus on re-evaluating the factors. The addition of new products will only detract from the research and resources dedicated to enhancing and maintaining the current models.

OSAM signed a contract with BSAM that allowed the strategies' track records, 15-member team, assets, and intellectual property to transfer to OSAM. In exchange, BSAM retained a 10% passive equity stake in the new firm. The O'Shaughnessy family trust owns the remaining 90%. It is unclear how JPMorgan's purchase of Bear Stearns will affect this agreement. However, OSAM is prepared to acquire the remaining 10% stake if necessary.

In total, the strategies lost less than 5% of the assets under management in the transfer. However, assets in the Small Cap Growth strategy declined from $2.6 billion at June 30, 2007, to $1.3 billion at December 31, 2007. OSAM severed two mutual fund relationships, one with AXA and another with Dreyfus, which accounted for the majority of the losses. The strategy remains closed and BSAM has not decided whether it will reopen the product to new investors. The products' underperformance has called into question the model's capabilities in this space. The team's apparent apathy toward the performance results in our inability to recommend the strategy going forward.

Issues to Watch

Product proliferation – OSAM has many strategies, and the suite of products is hard to distinguish. Many of the strategies seem to be duplicative and overlapping, such as the team's Small Cap Growth and the new Small Cap Earnings Growth products. In addition, the firm will be launching several international strategies in 2008.

Equity ownership – We are concerned that O'Shaughnessy has not carved out any equity ownership for senior professionals. Latimer implied that it could happen in the next 12 to 18 months. The 10% stake owned by BSAM is also unknown. Latimer stated that OSAM is willing to purchase the remaining piece, but after a recent meeting with JP Morgan, no decision had been reached.

Focus of firm – Latimer admitted that the team's main research focus is on launching new strategies versus enhancements and maintenance of the current models. We are concerned that O'Shaughnessy is more concerned with expanding the product line than he is ensuring that the models are rewarding current clients.

Small Cap Growth Equity – M. A. Weatherbie & Company

M.A. Weatherbie managed $57.1 million in assets at quarter-end. This represented a $17.1 million decrease from the previous quarter-end.

M.A. Weatherbie outperformed the Russell 2000 Growth Index and Mercer US Equity Small Cap Growth Universe median for all periods evaluated except since inception. Since inception, the portfolio has returned 4.0% versus the index return of 4.7%.

Favorable allocation and stock selection in energy contributed to performance during the quarter. Stock selection in industrials and information technology also aided returns, as did the underweight position in health care. Individual contributors included Dollar Tree and CBeyond.

The leading performance detractor during the quarter was stock selection within the health care sector. The portfolio's overweight allocation to financials also hurt performance. Individual detractors included NATCO Group, American Reprographics, Lifetime Fitness, Affiliated Managers, and I-Flow Corp.

Small Cap Value Equity – Dalton, Greiner, Hartman, Maher & Co. (DGHM)

DGHM managed $58.8 million in assets at quarter-end, a decrease of $17.4 million from the previous quarter-end.

The portfolio outperformed the Russell 2000 Value Index for all periods evaluated. The portfolio ranked in the top quartile of the Mercer US Equity Small Cap Value Universe for all periods shown. Since inception, the fund has returned 7.1% versus the index return of 5.2%.

Underweight allocations coupled with favorable stock selection in the industrials, information technology, and telecommunications sectors aided returns. An underweight allocation to financials and stock selection in the consumer discretionary sector also benefited performance during the quarter. Individual contributors included Mueller Industries, Knight Capital Group, Community Trust Bancorp, WGL Holdings, and First Merchants.

Detracting from performance for the quarter was the portfolio's overweight allocation to materials, consumer discretionary and energy. Stock selection in financials also hurt performance. Individual detractors included Ramco-Gershenson Properties Trust, Gaylord Entertainment, Pennsylvania REIT, and BioMed Realty Trust.

Small Cap Value Equity – Wedge Capital Management

Wedge Capital Management held $37.4 million in assets at quarter-end, a decrease of $11.3 million from the previous quarter.

For the recent quarter, the fund outperformed the Russell 2000 Value Index and the Mercer US Equity Small Cap Value Universe median. Since inception, the fund has returned –27.5% versus –26.3% for the index. The account was funded in April 2008. Performance tracking began May 1, 2008.

Research Note (January 8, 2009): The meeting served as our annual firm update and review of its highly rated strategies. Though assets at approximately $8.7 billion are down (due to market depreciation) compared to last year's $10.8 billion, WEDGE remains committed to its expertise and ensuring that adequate resources are in place for its continued success. The firm added approximately $500 million in new client assets across the board in 2008 and has several other new business opportunities in the pipeline that could add another $500 million. WEDGE has also been the beneficiary of client re-balancing into its strategies. These developments are positive from a business management perspective and add cushion to a break-even asset threshold for business profitability that is significantly below its current asset base.

The process has not changed since we last met, and we continue to have a high regard for the investment team and its research capabilities. Both Gary Cotler and Paul VeZolles continue to demonstrate strong insights with regard to managing the Small Cap Value and Mid Cap Value strategies, respectively, and are supported by a talented group of analysts. While the team is consistently mindful of portfolio risks and the bets that are taken, it is also encouraging to hear that even greater emphasis has been placed on the analysis of balance sheets, specifically company debt, and business viability in response to market events. According to Cotler, he is currently taking the opportunity to upgrade the portfolio and possibly add more cyclical names as valuations become compelling, but prudently avoiding companies where the financial risks may be too substantial, despite the potential for significant return.

Michael Gardner spent some time elaborating on his role as Director of Research and his engagement with the quantitative strategies. As Director of Research, he primarily serves as a quality control check as all stock recommendations are filtered through him on an ad-hoc basis. Gardner claimed that this process is not meant to impart his subjective views on ideas but to ensure that the team has “turned over all the rocks” during the fundamental research process. We believe his involvement offers a separate set of eyes that contributes to the vetting process and the thoroughness of the team’s research. A good majority of Gardner’s role is spent collaborating with Andrei Bolshakov on the quantitative model and associated enhancements. While Gardner has historically spent approximately 75% of his time on this segment of the business, he acknowledged that more of his time will be committed to fundamental research going forward. His making such a move suggests that he has developed greater confidence in Bolshakov’s quantitative expertise over the years.

The recent market turmoil has not resulted in any staff layoffs or reductions in expenditures that would negatively impact the management of the strategies. In fact, the firm is taking this opportunity to selectively add talent, similar to what they did during past market downturns. While there is no urgency to increase research capacity, WEDGE plans to hire two junior analysts, one fundamental and one quantitative, when that opportunity presents itself. The firm also anticipates adding a client service person, the timing of which remains uncertain.

During our meeting, Gardner addressed team morale and described the overall tone as positive despite market challenges. While the team remains stable, he sees opportunities where an upgrade to the investment staff is plausible, essentially hinting that underperformers may be let go. However, we do not expect to see drastic changes to the team, especially at the senior level or among those with primary decision-making authority. Any changes, if at all, would likely be prudent and few, and not impact the investment process.

Bonuses will be paid in January 2009 and are not expected to be significantly impacted compared to last year. However, the management committee, comprising Gardner, James, and Brad Horstmann, is taking a closer look at salaries for the coming year with the possibility of a wage freeze across the board. We do not believe this is indicative of any looming financial difficulties at the firm, but rather of a conservative response to uncertain market conditions.

As mentioned from an earlier news item, client portfolio manager Gilbert Galle will retire at the end of 2008. His client responsibilities have been slowly transitioned to Leah Long and Caldwell Calame, who were added over the past few years in anticipation of this event. Though Galle sits on the investment policy committee, we do not expect any impact on the process as a result of his departure. His equity stake in the firm will be redeemed over time and recycled to new partners.

Issues to Watch
Quantitative platform – The firm recently launched a small/mid cap quantitative product that is an extension of its large cap QVM strategy. We do not expect the product to be an impediment to the firm's fundamentals-based small/mid cap strategy in the near term. Will this eventually cannibalize the firm's existing small/mid cap product? Will the strategy hinder the team's ability to effectively implement portfolio decisions in its small and mid cap strategies?

Compensation – James claimed that 2008 bonuses are not expected to be notably impacted compared to the prior year. However, there is the possibility of a wage freeze for 2009. We will monitor the potential impact this may have on the firm's staff.

Small Cap Value Equity – Thompson, Siegel & Walmsley

Thompson, Siegel & Walmsley managed $35.7 million in assets at quarter-end, representing a decrease of $11.5 million from the previous quarter end.

Thompson, Siegel, & Walmsley outperformed the Russell 2000 Value Index and Mercer US Equity Small Cap Value Universe median for the recent quarter. Since inception, the fund has returned –28.1% versus the Index's –26.3%. The account was funded in April 2008; performance tracking began May 1, 2008.

News Item (January 30, 2009): The meeting served as our annual due diligence update on TSW's highly rated strategies, and provided an opportunity to meet with Paul Ferwerda and Jennings on Large Cap Core, which utilizes the same four-factor process that is the team's competency. The investment process has not changed since we last met, and there have been no alterations to the quantitative model that continues to be the primary idea generation tool.

Roger Porter joined the small cap team in August 2008 immediately after Bryan Durand's departure. Though Porter came from a growth shop, it appears that he is acclimating himself well in adopting TSW's value approach. Although each member of the small cap team serves as a generalist, Porter's primary areas of coverage include technology, health care, and energy.

We continue to be impressed with the insights of portfolio managers Reichel and Hawkins. All three highly rated strategies remain underweight the financials sector given the dearth of attractive opportunities, though Hawkins claimed that there may be an opportunity to selectively build exposure to banks as valuations have become even more compelling. However, we expect the overall underweight to persist for some time.

Our discussion with analysts Chip Whittman (Financials) and Matt Cullen (Health Care) reaffirmed our confidence in the team's fundamental research, which we believe to be one of TSW's key strengths. Both analysts were highly knowledgeable with respect to their sectors, and provided stock specifics that were consistent with the team's investment discipline. We continue to believe that the domestic research team is well staffed.

The Mid Cap Value strategy outperformed the Russell Midcap Index for 2008 while the SMID Cap Value and Small Cap Value strategies slightly lagged their respective benchmarks. All three strategies were materially hurt in the third quarter of 2008 due to an underweight to financials as the sector rebounded and an overweight to energy partly due to the Russell rebalancing that occurred at the end of June 2008.

Ferwerda and Jennings bring years of experience in managing the Large Cap Core strategy, which will typically exhibit a value tilt relative to the core benchmark. The difference between this strategy and the firm's Large Cap Value product is purely the benchmark used for portfolio construction purposes. While Jennings (lead portfolio manager) provided a sensible thesis for owning the stocks we discussed, several examples lead us to question her investment judgment and depth of knowledge on names. It is unclear to what extent the portfolio reflects the analysts' recommendations as opposed to Jennings' insights as a manager. Although we still need to gain more confidence in Jennings' capabilities, the fundamental research team supporting the strategy warrants an above-average rating.

The Small Cap Value and SMID Cap Value each have approximately $250 million in additional capacity. We believe TSW remains committed to conservatively closing strategies.

Issues to Watch

There are no major issues that bear watching at this time.

International Equity – INVESCO

INVESCO held $192.7 million at quarter-end, representing a decrease of $45.3 million from the previous quarter-end.

INVESCO outperformed the MSCI EAFE Index and placed above the Mercer International Equity Universe median for all periods evaluated. Since inception, the fund has returned –1.8% versus the index return of –2.6%.

The fund's outperformance was largely the result of favorable stock selection in the materials, telecommunication services, and information technology sectors. At the country level, underweight positions in Germany and Australia paired with holdings in France and Japan aided performance. Individual contributors included NTT DoCoMo, Banco Santander, and Seven & I Holdings.

An underweight allocation to utilities detracted from performance during the quarter. At the country level, unfavorable allocation and stock selection in Denmark, Netherlands, Sweden, and Hong Kong weighed on performance, as did stock selection in the U.K. Individual detractors included Barclays PLC, HSBC Holdings, and Mitsubishi UFJ

International Equity – Capital Guardian Trust Company

Capital Guardian managed $173.5 million in assets at quarter-end, $40.7 million less than at the previous quarter-end.

Capital Guardian outperformed the MSCI EAFE Index for all periods except 3 years, when it tracked the index. Since inception, the fund has returned –1.7% versus –1.8% for the MSCI EAFE Index. The fund outperformed the MSCI EAFE Growth Index for all periods shown except 3 years. Since inception, the fund has returned –1.7% versus –4.2% for the MSCI EAFE Growth Index. The fund also outperformed the

Mercer International Equity Universe median for all periods evaluated expect 3 and 5 years.

Contributing to performance during the quarter was stock selection in the materials, information technology, consumer staples, and telecommunication services sectors. Favorable allocations to Australia, Germany, Italy, and U.K. also helped performance. Individual contributors included SOFTBANK, NTT DoCoMo, and Barrick Gold Corp.

Stock selection within the financials, energy, and utilities sectors dampened performance for the recent quarter. The fund's light exposure to the utilities sector also contributed negatively to returns as did a small out-of-benchmark exposure to Canada, U.S. and emerging markets. Individual detractors included BNP Paribas, ORIX Corp, and ING Groep.

International Equity – LSV Asset Management

LSV managed $135.8 million in assets at quarter-end. This represented a decrease of $43.0 million from the previous quarter-end.

LSV underperformed the MSCI EAFE Index, MSCI EAFE Value Index, and Mercer International Equity Universe median for all periods evaluated. Since inception, the fund has returned –4.1% versus –2.5% for the MSCI EAFE Index and –3.2% for the MSCI EAFE Value Index.

The fund's underweight allocation to utilities, coupled with stock selection in the consumer discretionary and financials sectors, detracted from performance for the quarter. From a regional perspective, stock selection in Europe negatively impacted the fund. Individual detractors included BNP Paribas, Bank of Ireland, and Fuji Heavy Industries.

Contributing to performance for the quarter were the fund's holdings and currency exposure in Asia/Pacific, especially Japan. An underweight allocation along with stock selection and currency exposure in Germany also benefitted performance. Individual contributors included NTT DoCoMo, Nippon Telegraph & Telephone, and Ministop Company.

International Small Cap Equity – AXA Rosenberg

AXA Rosenberg held $26.7 million at quarter-end, which was a $9.5 million decrease from the previous quarter-end.

AXA underperformed the MSCI Small Cap World ex US Index for the quarter but outperformed for all other periods shown. The fund underperformed the S&P Developed Small Cap ex US Index for all periods evaluated and outperformed the Mercer International Equity Small Cap Universe median for the 1-year period only. Since inception, the fund has returned –5.4% versus –7.0% for the MSCI Small Cap World ex US Index and –4.5% for the S&P Developed Small Cap ex US Index.

International Small Cap Equity – William Blair & Company

William Blair managed $40.1 million at quarter-end, a decrease of $16.7 million from the prior quarter-end.

The portfolio underperformed the MSCI Small Cap World ex US Index and ranked at the bottom decile of the Mercer International Equity Small Cap Universe for the quarter. Since inception in September 2008, the portfolio has returned –29.3% versus –23.6% for the index.

News Item (November 20, 2008): Blair announced November 19, 2008, that the International Growth: All Cap, International Growth: Small Cap and International Growth: Emerging Markets strategies have been reopened to new separate account and mutual fund investors. Blair believes that the additional capacity can be made available to new investors because of the recent market declines, increased liquidity in the markets over the past 5 years, growth in the investment team, and Blair's small percentage of the overall market capitalization.

As of October 31, 2008, the International Growth: Small Cap had $575 million in assets under management, with a target capacity of around $1 billion. The Emerging Markets strategy currently has $1.1 billion under management, and Blair estimates capacity between $2 billion and $2.5 billion. The International Growth (All Cap) product has seen the largest decline, with current assets at $7.6 billion as of October 31, 2008. Blair believes the capacity in this strategy is $15 billion.

Mercer View:
The decline in assets under management is driven primarily by the recent market declines, although the firm has seen some net outflows (less than 1% of assets in the strategies). As a result, the decision to reopen the strategies is not unexpected. Historically, Blair has taken a prudent approach in managing asset growth and adhering to stated capacity targets, and we do not expect this to change.

Emerging Markets Growth Equity – Capital Guardian Trust Company

Capital Guardian managed $166.8 million at quarter-end. This represented a $56.4 million decrease from the previous quarter-end.

Capital Guardian outperformed the MSCI Emerging Markets Investable Market Index and placed in the top third of the Mercer Emerging Markets Equity Universe. Since inception, the portfolio has returned 4.7% versus the 4.5% for the index. Stock selection in the information technology, energy, and materials sectors contributed to performance. The portfolio's underweight allocation to Brazil also helped performance. Individual contributors included DLF Limited, Harmony Gold Mining, and China High Speed Transmission.

Detracting from performance was stock selection in the industrials and utilities sectors, as well as stock selection in China. Individual detractors included CEMIG, TIM Participacoes, and Energy Development Corp.

Research Note (November 20, 2008): Mercer continues to have a high level of regard for Cap Guardian's investment professionals. The depth of the fundamental research and the resources available to the team are impressive. Recent efforts by the firm to encourage the investment team to focus on areas where individuals add the most value, reduce the number of mandates of each of the professional managers, and increase accountability are positive developments. Over the short to medium term, however, we question whether these new endeavors may lead to above-average investment professional turnover. That said, the emerging markets team continues to enjoy stability, with only one departure over the last 18 months. As part of the efforts to focus investment professionals, Nancy Kyle relinquished her sleeves in the emerging markets strategy and the international small cap in early 2007. She is now a non-U.S. specialist on the Global and Non-U.S. equity strategies and has not been replaced on the emerging markets team.

While the efforts to increase accountability and focus the investment professionals are steps in the right direction for the research process, we continue to have reservations about the efficacy of the Multiple Portfolio Manager System. First, it is difficult to set expectations because there is no consistent approach or style to security selection. As a result, it is difficult to judge whether the team member is investing true to his/her discipline. We cannot judge whether the strategy's results come from the skillful application of a consistent process or random luck.

In addition, while discussing idea generation and portfolio construction decisions with Cap Guardian, Mercer is not convinced that a consistent and repeatable process is employed. Different team members often hold separate and distinct methodologies for arriving at conclusions. When putting together portfolios, the managers may use their own ideas or draw from the analysts. We have also found varying levels of insights into the portfolio holdings, which is a concern.

Cap Guardian has a poor track record for managing asset growth, which drove Mercer's decision to downgrade the strategies in 2005. Assets had grown to over $18 billion, and as of December 2004, Cap Guardian represented 2.38% of the free float of the MSCI Emerging Markets Index and 0.72% of the total market. The strategy suffered from an extended period of underperformance due, in part, to the asset bloat.

Broadly, we do not consider Cap Guardian's approach to managing asset growth favorably, as the firm does not acknowledge that this approach may hamper the ability of the portfolio managers to execute the strategy. In the case of emerging markets, after a period of underperformance, Cap Guardian realized that some measures to control growth might be beneficial. To that end, Cap Guardian now tracks the percentage of the total universe and the percentage of the free float index that the firm's emerging markets assets represent. Since 2004, both numbers have decreased meaningfully, with Cap Guardian representing 0.33% of the total universe and 0.79% of the free float index. That said, two mitigating factors have made these statistics look more favorable: the emerging markets have grown dramatically over the past four years, and, in addition, Cap Guardian has experienced net outflows since 2005 in both strategies. While the firm does monitor these metrics, Cap Guardian does not have any maximum percentages that would indicate assets were too large relative to the overall market. As a result, we do not view this as an effective means by which to limit assets from becoming large and diminishing the ability to add value.

In addition, the firm will now accept only $1 billion in new inflows per year to the dedicated emerging markets strategies. No constraints are placed on emerging markets allocations from the EAFE, ACWI or Global mandates, which can all invest in this space. The Board of Directors for the emerging markets strategies has control over the annual inflow target and can revise it as it sees fit. However, the review is only done annually, and over the short term, the Board cannot gauge the market environment and adjust to the team's ability to put capital to work. Thus, while we view the annual limit on new inflows as an efficient tool to ensure that new capital can be invested in a timely manner, we do not view it as an effective means to control overall asset growth.

While the two initiatives to monitor asset growth are an initial step, we do not feel they are sufficient to control capacity, as the firm will not set an overall capacity limit. Across Cap Guardian's Emerging Markets Equity and Emerging Markets Growth Fund and Capital International's Emerging Markets Equity strategy (the same team manages all three versions), assets under management totalled $30.5 billion as of September 30, 2008, which is significantly greater than the next-largest concentration of emerging markets assets for any other firm in Mercer's Emerging Markets Equity universe (the next three largest manage between $16 billion and $18 billion each). These figures do not include Cap Guardian's emerging markets allocations in Global, ACWI or EAFE mandates. In light of the total asset base at Cap Guardian/Capital International and their unwillingness to set a maximum capacity target, we are concerned that assets under management may continue to diminish the strategies' ability to add value. As a result, we cannot recommend Cap Guardian's emerging markets capabilities to clients.

Fixed Income – Lehman Brothers Asset Management

During the first quarter of 2008, the Lehman Brothers Passive Bond Index Fund was converted to the Enhanced Bond Index Fund. As of December 31, 2008, Lehman Brothers Asset Management held $350.2 million, representing a decrease of $28.1 million since the end of the last quarter. The decline is due to a net cash outflow of $34.8 million during the quarter.

The fund underperformed the Barclays Capital Aggregate Bond Index for all periods evaluated. The fund has performed in line with the Mercer US Fixed Combined Universe median. Since inception, the fund has returned 7.3% versus 7.5% for the index.

The fund's underweight allocation to Treasuries and overweight allocation to CMBS detracted from performance. Exposure to floating-rate notes and mortgage-related security selection also negatively impacted returns.

An overweight allocation to Agencies benefitted performance for the quarter. Security selection and favorable spread weighting within corporates also contributed positively to returns.

News Item (December 4, 2008): Today it was announced that a group of senior investment and management professionals (Management) agreed to acquire a majority interest in the Lehman Bothers Holdings Inc.'s (Lehman) Investment Management Division (IMD), which includes Neuberger Berman and Lehman Brothers investment strategies. The original deal proposed by Bain Capital and Hellman Freidman, which was yet to be finalized by Lehman's creditors and the bankruptcy judge, included a formula that tied the final price of the business to the performance of the S&P 500 Index and included a clause that allowed Bain and Hellman to back out of the deal if the S&P 500 was below 900 at the time the deal was to be finalized. As the S&P 500 rapidly decreased in value, Management decided to put together a competing offer that eventually became the winning bid as awarded by the bankruptcy judge and Lehman's creditors.

Management will own a 51% stake in the IMD, which will assume the Neuberger Berman name. The remaining 49% will be issued as non-voting preferred stock, 93% of which will go to the bankruptcy estate and 7% will be retained by Neuberger. Neuberger's board will consist of seven people: three internal Neuberger employees, two independent members as appointed by Neuberger, and two members as appointed by Lehman's creditors.

Mercer View
We view this as a positive development for investors in Neuberger Berman and Lehman Brothers funds. Alignment of interests and the longer-term direction of the business are more stable and clear. We will maintain the current ratings on all Neuberger and Lehman investment strategies, and will continue to monitor the situation.

Fixed Income – Metropolitan West

Metropolitan West managed $327.7 million in assets at quarter-end, which represented a decrease of $46.3 million since the previous quarter-end due in part to a net cash outflow of $35.6 million during the quarter.

Metropolitan West underperformed the Barclays Capital Aggregate Bond Index and the mercer US Fixed Combined Universe median for all periods shown. Since inception, the fund has returned 4.1% versus 5.4% for the index.

Overweight allocations to non-Agency MBS, home equity ABS, and CMBS along with an underweight allocation to Treasuries and Agencies hurt performance.

The portfolio's overweight position in corporates, specifically financials, contributed positively to performance during the quarter.

Fixed Income – Bradford & Marzec, Inc.

Bradford & Marzec managed $351.3 million in assets at quarter-end, which was a decrease of $25.2 million since the previous quarter-end due to a net cash outflow of $35.3 million during the quarter.

The portfolio underperformed the Barclays Capital Aggregate Bond Index for all periods shown except since inception. It outperformed the Mercer US Fixed Combined Universe median for all periods shown. The portfolio has returned 8.1% versus 7.4% for the index, since inception.

Detracting from performance for the quarter was the fund's allocation to the poor-performing high yield market. Poor security selection within corporates and mortgages also detracted from returns.

The fund's underweight allocation to CMBS and exposure to foreign securities contributed positively to performance. The fund's tactical duration and yield curve positioning also benefitted returns.

Meeting Note (December 15, 2008): Mercer met with Bradford and Marzec in December 2008 to discuss the firm's Core and Core Plus strategies. Bradford & Marzec is a mid-sized fixed income shop that relies largely on sector rotation in the Core and Core Plus strategies. There are seventeen employees on staff, which includes five full-time credit analysts and six partners. These six partners also make up the

Investment Strategy Group (ISG) that meets weekly to discuss economic scenarios and top-down themes to implement in all underlying portfolios.

Portfolio positioning is dominated by the ISG, which requires a majority vote before ideas are implemented. Examples of this top-down reliance can be seen in the firm's complete abandonment of financials in 2007 and CMBS in 2008. These are somewhat extreme measures that speak to the firm's desire to stick with liquid securities at all times. Even the Core Plus portfolio seems to have a conservative slant by avoiding more complicated, illiquid names and sectors (e.g., bank loans). The firm, however, is not benchmark aware and will exhibit high tracking error from turning the dial up or down in various sectors.

Bradford & Marzec places very strict constraints on duration/curve and non-dollar/currency bets with a 4 basis point stop-out limit restriction. The duration and yield curve approach taken by Bradford & Marzec is very tactical and relies on macro economic and technical factors (mean reversion) when playing off short-term incremental moves (using U.S. Treasury instruments as opposed to the more efficient derivatives market, mainly because client guidelines have not given the firm a lot of room to use futures contracts).

MBS spreads may look attractive by historical standards, but Graham Allen is slightly concerned that foreign buyers might not come back to the U.S. Agency market as they have in the past, which could, in effect, keep spreads wide. Portfolios currently have a benchmark-neutral posture to Agency mortgage products. Bradford & Marzec's currency trades are primarily interested in carry advantages. The firm also has a macro bet on U.K. and euro curve steepening that will resemble what has taken place in the U.S.

Hedge Fund – Blackstone Alternative Asset

At quarter-end, this account held $121.4 million in assets. This represented a decrease of $12.9 million since the previous quarter-end.

The portfolio underperformed the 3-Month T-Bill Index plus 5% benchmark for all periods. Since inception, the fund has returned 4.1% versus the benchmark return of 8.3%. The CSFB Tremont Hedge Funds Long/Short Equity Index is shown in the performance summary section for informational purposes.

Hedge Fund – Grosvenor Capital Management

At quarter-end, Grosvenor managed $124.1 million in assets. This represented a decrease of $7.3 million from the previous quarter-end.

The portfolio underperformed the 3-Month T-Bill Index plus 5% benchmark for all periods. Since inception, the fund has returned 3.0% versus 8.3% for the benchmark. The CSFB Tremont Hedge Funds Long/Short Equity Index is shown in the performance summary section for informational purposes.

Real Estate – BlackRock Realty (formerly SSR Realty Advisors)

BlackRock (leveraged) managed $168.0 million in assets at quarter-end, representing a decrease of $31.0 million.

The strategy underperformed the NCREIF Property Index for the quarter, 1-year, and 3-year periods. The strategy outperformed the index for 5 years. Since inception, the portfolio has returned 11.2% versus 10.5% for the index.

<u>Real Estate – BlackRock Realty Portfolio II (formerly SSR Realty Advisors Portfolio II)</u>

At quarter-end, BlackRock Portfolio II (leveraged) managed $112.2 million in assets; this represents an increase of $5.9 million since the previous quarter-end, due primarily to a net cash inflow of $16.7 million.

The strategy underperformed the NCREIF Property Index for the quarter and 3 years but outperformed for 1 year. Since inception, the portfolio has returned 16.0% versus 11.6% for the index.

<u>Real Estate – Cornerstone Real Estate Advisers Separate Account Portfolios</u>

At quarter-end, Cornerstone (leveraged) managed $131.9 million in assets, representing a decrease of $18.9 million since the prior quarter-end.

Cornerstone underperformed the NCREIF Property Index for all periods evaluated. Since inception, the fund has returned 7.2% versus 11.9% for the index.

<u>Value Added Real Estate – UBS Realty Investors (Allegis Value Trust)</u>

UBS held $10.9 million in assets at the end of the quarter. This represented an increase of $1.1 million since the prior quarter-end. This increase was due to a net cash inflow of $1.5 million.

The portfolio outperformed the NCREIF Property Index + 2% benchmark for all periods evaluated. Since inception, the fund has returned 13.0% versus 7.2% for the index.

News Item (January 26, 2009): It was reported on January 22, 2009 that UBS AG is exiting the real estate business. To clarify, this is only in the investment banking area of UBS AG and is not related to the real estate management group within UBS Global Asset Management. The UBS real estate funds that are rated by Mercer are all managed by the Global Asset Management division (specifically the U.S. funds are managed by the group based in Hartford, CT). The Global Asset Management Division has had some reductions in staff and this included reductions in the U.S. Real Estate Group; however, this was handled through natural staff attrition to meet the goals set by UBS AG. At this time, the U.S. Real Estate group does not anticipate further reductions in staff. Additionally, the U.S. real estate division continues to be a profitable line of business for the firm.

While we believe that UBS AG has a number of issues that need to be worked through, we believe that most of these are in the Investment Banking division. Unlike most other firms, the two lines of business at UBS AG have operated separately from one another. The UBS Global Asset Management – U.S. Real Estate division has always operated completely autonomously from the UBS Investment Banking division.
While we will continue to monitor the issues of the parent company, UBS AG, this information does not change our view on the ratings established for the real estate strategies managed by the Global Asset Management Division.

Value Added Real Estate – AEW Capital Management, LP

At quarter-end, AEW managed $9.6 million in assets. This represents an increase of $2.1 million since the previous quarter-end; the increase was due to a net cash inflow of $2.2 million during the quarter.

The fund outperformed the NCREIF Property Index + 2% benchmark for all periods except since inception. The fund has returned 0.5% since inception versus 3.0% for the benchmark.

Value Added Real Estate – Hines

At quarter-end, Hines held $12.6 million in assets, which is roughly the same as at the prior quarter-end.

The portfolio outperformed the NCREIF Property Index + 2% for the quarter only. It has significantly underperformed the benchmark for 1 year. Since inception, the portfolio has returned –15.0% versus 1.2% for the benchmark.

Real Estate Limited Partnerships – BlackRock Realty Tower/Granite Property Fund

At quarter-end, the account held $60.5 million in assets. This is a decrease of $12.5 million since the previous quarter-end.

The portfolio underperformed the NCREIF Open End Diversified Core Equity Index all periods. Since inception, the portfolio has returned 6.6% versus the index return of 7.1%.

Real Estate Limited Partnerships – Cornerstone Patriot Fund

At quarter-end, the account held $73.0 million. This is a decrease of $9.1 million since the previous quarter-end.

The strategy outperformed the NCREIF Open End Diversified Core Equity Index for the quarter only. Since inception, the fund has returned 10.3% versus the index return of 10.5%.

REITS – CB Richard Ellis (Global)

The account was funded in October 2008; performance tracking began November 1, 2008. At quarter-end, CB Richard Ellis held $63.5 million. Performance for a full quarter is not available.

REITS – Principal Global Investors

Principal Global Investors managed $33.3 million in assets at the end of the quarter, which was a decrease of $17.3 million from the previous quarter-end.

The strategy outperformed the FTSE NAREIT Equity Index and the Mercer US Real Estate Public REITS Universe median for all periods. Since inception, the portfolio has returned –11.5% versus the index return of –14.1%.

Research Note (November 11, 2008): We continue to have confidence in Kelly Rush and Principal's U.S. real estate securities team.

Rush has been researching real estate securities since 1994 and managing assets in this category since 1997. Matt Richmond is primarily responsible for the management of the North American portfolio.

Principal launched a global real estate securities strategy in February 2007. Rush partnered with Principal's Australian real estate securities group to establish the new product. While developing the new strategy, Rush proactively added investment professionals to the North American team knowing that the existing team members would have to spend time working on the global strategy. Michael Wei, Keith Bakota, and Todd Kellenberger were all added to the team before the launch of the global strategy. We appreciate that the launch of the global strategy was well thought out and that resources were added to the U.S. team with the expectation that the exiting team members would spend time elsewhere. To date it does not appear that the launch of the global strategy has affected the U.S. portfolio adversely.

In light of current markets conditions, Principal continues to implement a generally defensive posture with the portfolio. The portfolio predominantly comprises low-leverage companies, with high-quality assets, quality management teams and property types less susceptible to an economic slowdown. Rush indicated that there is a reasonable chance the current negative market sentiment could turn around quickly and, thus he is not inclined to hold extraordinary levels of cash or have a portfolio consisting exclusively of stocks exhibiting defensive attributes.

Issues to Watch

Global strategy – As assets increase in the global strategy, we need to ensure that the U.S. team is not heavily burdened.

REITS – Urdang Securities Management

At quarter-end, Urdang held $32.8 million. This is a decrease of $19.5 million since the prior quarter-end.

Urdang outperformed the FTSE NAREIT Equity Index and the Mercer US Real Estate Public REITS Universe median for all periods shown. Since inception, the portfolio has returned –12.0% versus the index return of –14.1%.

Private Equity – HarbourVest Partners

HarbourVest was funded during the fourth quarter of 2007. At quarter-end, HarbourVest managed $15.5 million in assets, which represented an increase of $0.5 million since the prior quarter-end. This increase was due to a net cash inflow of $1.6 million.

The fund outperformed the S&P 500 + 2% Index for all periods shown. Since inception, the fund has returned –3.6% versus –35.0% for the index.

Private Equity – Goldman Sachs

At quarter-end, Goldman Sachs held $1.6 million in assets, representing an increase of $0.5 million since the prior quarter-end. This increase was due to a net cash inflow of $0.5 million.

The portfolio outperformed the S&P 500 + 2% Index for the quarter. Since inception, the portfolio has returned 0.9% versus –27.1% for the benchmark. This account was funded in June 2008; performance tracking began July 1, 2008.

Private Equity – Abbott Capital Management

At the end of the quarter, Abbott managed $2.4 million. This represented an increase of $0.9 million since the end of the previous quarter.

For the quarter, the portfolio outperformed the S&P 500 + 2% index. Since inception, the portfolio has returned –7.8% versus –26.6%. The account was funded in July 2008; performance tracking began August 1, 2008.

Private Equity – State Street Global Advisers Russell 2000 SWAPs

At the end of the quarter, the strategy held $91.8 million in assets, which represented a decrease of $149.8 million since the prior quarter-end. There was a net cash outflow of $78.0 million during the quarter.

The strategy underperformed the Russell 2000 Index for the current quarter. Since inception, the strategy has returned –31.2% versus –26.2% for the index.

Opportunistic – PIMCO Distressed Mortgage Fund

At quarter-end, PIMCO managed $17.8 million in assets, which was an increase of $4.9 million since September 30, 2008. This increase was due to a net cash inflow of $6.0 million.

PIMCO returned –24.5% for the quarter. Since inception, in the fourth quarter of 2007, the fund has returned –33.0%.

News Item (January 12, 2009): At the end of 2008, the U.S. Federal Reserve selected PIMCO to be one of four investment managers for its $500 billion mortgage-backed securities (MBS) program. The buying program is reported to have started during the first week of 2009. Per the mandate, the Fed requires that personnel responsible for the account be sequestered from the rest of the firm's fixed income investment team. As a consequence, PIMCO named Dan Hyman to be dedicated to the program. There will be no communication between Hyman and the trading floor and PIMCO's investment staff will not have access to the systems or activities of Hyman's portfolio. Hyman joined PIMCO in 2008 from Credit Suisse.

Issues to Watch

We are pleased that Scott Simon, head of PIMCO's mortgage team, is not impacted by this news. We consider him to be a talented and knowledgeable agency mortgage trader and strategist. We believe PIMCO's overall mortgage team to be well resourced and skilled at selecting securities in their universe. Therefore, Hyman's re-assignment is not considered to be significant to our current ratings. We do not recommend any rating changes at this time. That said, it is possible that additional personnel are re-assigned from the trading desk, and such news may impact our view in the future.

Opportunistic – European Credit Management CorePlus (ECL Alpha)

European Credit Management held $33.9 million in assets as of quarter-end, which was a decrease of $9.1 million since the previous quarter-end.

The fund underperformed the Barclays Capital Aggregate

Bond Index for the current quarter. Since inception, the fund has returned –31.7% versus 3.5% for the index.

Research Note (January 20, 2009): In September 2008, amid speculation that Wachovia (majority owner of ECM) would be bought by either Citigroup or Wells Fargo, we moved the ratings on all ECM products to provisional. On November 27, 2008, we reaffirmed the provisional rating amid continuing uncertainty at the parent company level (Wells subsequently acquired Wachovia on December 31, 2008). Additionally, recent poor performance and potential business risk stemming from possibly large-scale redemptions increased our concern. Following the November meeting, we also downgraded their global fixed income product as we believe that their peers employ a greater array of diversified sources of alpha. At the November meeting, we noted that from the point of implementation, the reduction in available counterparties to transact repo agreements with may well restrict their ability to leverage assets going forward.

Following this latest quarterly update, our concerns on business management remain the same: ECM's ability to access repo financing has deteriorated and we have learned of what we consider to be a failing in portfolio construction. Essentially, a design feature of the medium-term note structure can leave U.K. investors partially exposed to currency fluctuations. During Q408, ECM experienced sharply negative returns, which were combined with a sharp depreciation in sterling versus the euro. Fortuitously, purely as a function of when the coupons pay out and movement of markets, ECM's flagship program, ECL, avoided the majority of the negative currency impact but the smaller REV product suffered acutely. This has always been a dormant risk, and during less volatile market conditions, had impacted portfolios "a few basis points" either positively or negatively. Given our previously held regard for ECM's ability to manage portfolios effectively, we would have expected them to monitor this risk at the point of heightened volatility. ECM does not appear to have a ready solution to this problem, stating that "it is too difficult to hedge more frequently" and that "clients may wish to appoint a currency overlay manager to address the issue." We are disappointed by this response, especially as other managers have addressed this problem to our satisfaction.

Our proposed downgrade to B+ across all strategies (with the exception of the global fixed income product, which follows our previously held recommendation to downgrade to B) and the removal of the provisional designation reflect our ongoing concern at the business management level, our diminished confidence in ECM's ability to access repo financing and ECM's response to the heightened volatility in credit and currency markets. We continue to believe that ECM's idea generation capability is worthy of our highest rating and that, amid an environment of heightened defaults, the quality of their fundamental credit analysis and the portfolio's diversification will prove beneficial. Furthermore, given the current wide spreads available on investment-grade credit and the cost of transitioning at this time, we believe that now is not a good time to exit ECM's products.

Issues to Watch

At our November meeting, we discussed the reduction in counterparties willing to provide ECM with repo financing. From this conference call, we learned that the list of counterparties has been reduced further to 10, with Credit Suisse, for example, withdrawing all repo lines with effect from end of January 2009. Those counterparties that remain have become more stringent in what they will repo out (e.g., BNP Paribas will not take sub–investment grade collateral). Andrew Threadgold mentioned that ECM was “just about to” sign a contract for a 1-year repo line for €1bn with Wachovia and Barclays as a contingency measure. However, we cannot regard this positively until such time that the contract has been signed and the terms have been assessed.

What would be the implications of ECM’s no longer having access to repo financing? Well, for new clients, given where credit spreads are currently trading, if one accepts ECM’s view about recovering credit markets (or even stabilizing credit markets), leverage would not be required to produce positive excess returns. To this point, ECM is considering launching a range of products that do not have leverage. However, for existing clients that have suffered significant underperformance of late, leverage is necessary to recoup losses already incurred. There remains a question mark about ECM’s usage of (or even desire to use) leverage following the anticipated recovery in credit markets.

As for the rationale for the proposed rating changes, we are disappointed by ECM’s response to the issue of hedging euro currency exposure for sterling-based clients. Although we accept that the currency risk has always been dormant, given our previously held regard for ECM’s portfolio construction capabilities, we would have expected them to monitor this risk as volatility in both the credit and currency markets began to increase. It is of particular concern that ECM does not appear to have a ready solution for this problem and appears to regard it as a fault of the design of the medium-term note structure rather than a failing on the part of ECM per se. Other managers monitor the hedge for each currency class and would alter the hedge if/when there was a forward move out of a pre-set band.

ECM has been on a provisional rating since September 2008, given uncertainty at the parent company level. Perhaps more of a concern is closer to home in that ECM’s business model is predicated on the state of the European credit markets, which are, at present, experiencing unprecedented volatility. Even clients that are accepting of ECM’s approach (i.e., high beta credit manager expected to underperform in a spread-widening environment) are losing patience, yet given the ongoing illiquidity and technical nature of the market, ECM believes that assets sold in the current climate would not reflect fair value. As such, barriers to redemption are in place, either formally or informally. Question marks surround when such redemption barriers are likely to be removed, the extent to which ECM will see a client exodus at that time and the terms on which investors will be able to redeem.

<u>Opportunistic – State Street Global Advisers Real Asset Strategy</u>

At the end of quarter, SSgA held $22.8 million, representing a decrease of $117.5 million in assets since the previous quarter-end. Net cash outflow for the quarter was $70.0 million.

The strategy outperformed its blended benchmark (30% DJ Wilshire REITs, 50% S&P GSCI, and 20% LB TIPS) for the quarter only. Since inception, the strategy has returned –39.6% versus –38.4% for the index.

<u>Commodities – Lehman Brothers</u>

Lehman Brothers held $32.4 million in assets at quarter-end, a decrease of $14.7 million since September 30, 2008.

The strategy outperformed the Goldman Sachs Commodity

Index for the current quarter. Since inception, the strategy has returned –47.7% versus –54.9% for the index.

Commodities – Blackstone Alternative Asset Management

Blackstone managed $47.1 million in assets at quarter-end. This represents an increase of $10.6 million from September 30, 2008. An inflow of $19.9 million occurred during the quarter.

The portfolio outperformed the Goldman Sachs Commodity Index for the quarter and since inception.

News Item (January 14, 2009): Mercer has been informed by Blackstone that one of its employees is the subject of a civil complaint by the SEC. The individual in question is charged with passing on inside information three years ago about a pending transaction while employed as part of Blackstone's Corporate Advisory Services Group. Blackstone has suspended this employee and has offered the firm's full cooperation in the investigation into this matter.

Mercer View

Although this is an unfortunate development for Blackstone, Mercer does not consider it to be significant to the firm's fund of hedge funds or direct hedge fund investment management groups for several reasons. First, the investment management groups of Blackstone Alternative Asset Management (BAAM), which manages the fund of hedge funds, and GSO Capital Partners (GSO), which manages a direct hedge fund, operate as independent entities within the Blackstone Group. Communications and interaction between BAAM, GSO and Blackstone's other business and investment units are overseen by the firm's compliance group. Second, Blackstone's Corporate Advisory Services Group is also a separate entity from any of the firm's investment groups. Finally, Blackstone is not being charged with any wrongdoing. At this point the allegations of impropriety are isolated to a single individual.

While further information may be uncovered during the course of the investigation, Mercer believes that a connection to the firm's investment management business is unlikely. Overall, this development does not have a material impact on Mercer's assessment of the manager.

News Item (February 5, 2009): Blackstone has informed Mercer that Bruce Amlicke, the CIO, will be leaving the firm to spend more time with his family. Transition plans call for Amlicke to remain with the firm for the next three months on a full-time basis and then be available for a further three months in a consulting capacity. Amlicke's responsibilities will be assumed by other members of the senior management team. At present, Blackstone does not plan on hiring a replacement for the CIO position but will be looking for a senior-level strategist to provide a capital markets viewpoint to the Investment Committee.

Mercer View

Although the departure of a CIO can have a significant negative impact on some investment organizations, we do not feel that this is the case with Blackstone. Mercer remains confident in the firm's ability to manage assets; therefore, Mercer will not be recommending a change to the ratings. As CIO, Amlicke had as his main responsibilities oversight of the investment process, strategic planning, and new product innovation. He was also a member of the firm's Investment Committees. Amlicke was not involved in day-to-day management of the portfolios.

Blackstone maintains a sizable investment staff with a deep senior leadership team of experienced investors. Stephen Sullens, Blackstone's head of Portfolio Management, will continue to lead the day-to-day portfolio management effort. In addition, Sullens will be assuming the firm's strategic planning role. Other members of the team will assume Amlicke's remaining responsibilities. Mercer considers Blackstone's organization sufficiently robust to adjust to his departure without trouble. The extended transition period that Amlicke has agreed to provides us further comfort that this change can be accomplished smoothly.

Mercer will continue to monitor the situation at Blackstone during and after the transition.

Recommendations

Recommendations

Large Cap Core Equity Index – Alliance Capital Management (Passive)

- The manager tracked the index within 20 basis points for all periods shown. **Retention is recommended.**

Enhanced Large Cap Core Equity Index – Westridge Management

- Westridge outperformed the Russell 1000 Index but underperformed the universe median for the quarter. The manager was funded in June 2008. **Retention is recommended.**

Enhanced Large Cap Core Equity Index – BlackRock Financial Management

- BlackRock outperformed the Russell 1000 Index but underperformed the S&P 500 and the universe median for the recent quarter. The manager was funded in July 2008. See News Items in the Executive Summary. **Retention is recommended.**

Large Cap Equity Active Extension (130/30) – JPMorgan Asset Management

- JPMorgan outperformed the Russell 1000 Index and ranked in the top quartile of the Mercer US Equity Large Cap Core Universe for the quarter. The manager was funded in July 2008; performance tracking began August 1, 2008. See Research Note in the Executive Summary. **Retention is recommended.**

Large Cap Equity Active Extension (130/30) – UBS Global Asset Management

- The manager underperformed the Russell 1000 Index and ranked in the bottom decile of the Mercer US Equity Large Cap Core Universe for the recent quarter. UBS was funded in July 2008. **Retention is recommended because of the portfolio's short tenure with SCERS.**

Large Cap Equity Active Extension (130/30) – Barclays Global Investors

- Barclays outperformed the S&P 500 Index and the universe median for the quarter. The manager was funded in July 2008; performance tracking began August 1, 2008. See News Item in the Executive Summary. **Retention is recommended.**

Large Cap Growth Equity – Wells Capital Management

- Wells Capital was funded in April 2008, replacing Independence. The manager underperformed the index and universe median for the quarter. Mercer maintains its high regard for the strategy; see Research Note in Executive Summary. **Retention is recommended.**

Large Cap Growth Equity – INTECH

- The fund underperformed the Russell 1000 Growth Index and the Mercer U.S. Equity Large Cap Growth Universe median for all periods evaluated. Since inception, the fund has returned –17.3% versus –14.9% for the index. Mercer maintains an A rating for the strategy. See Research Note and News Item in the Executive Summary. **Retention is recommended.**

Large Cap Value Equity – LSV Asset Management

- The fund underperformed the Russell 1000 Value Index and the Mercer U.S. Equity Large Cap Value Universe median for all periods except since inception. Since inception, the fund has returned –1.8% versus the index return of –2.6%. See News Item in the Executive Summary. **Retention is recommended.**

Large Cap Value Equity – Pzena Investment Management

- Pzena underperformed the Russell 1000 Value Index and placed in or near the bottom decile of the universe for all periods evaluated. Since inception, the fund has returned –8.0% versus the index return of –2.6%. After an on-site meeting with Pzena, Mercer's research team removed the provisional designator assigned during the third quarter. Mercer maintains high regard for Pzena and believes it to be one of the best strategies in the deep value space. Please see Research Note in the Executive Summary. Because of the fund's continued poor performance for the 1- and 3-year periods, **we maintain our recommendation to keep the fund on the Watch List**.

Small Cap Growth Equity – O'Shaughnessy Asset Management (formerly Bear Stearns Asset Management)

- The portfolio outperformed the Russell 2000 Growth Index but slightly underperformed the universe for the quarter. O'Shaughnessy underperformed the index and universe for 1 year. Since inception, the fund has returned –26.1% versus the index return of –11.6%. See Research Note in Executive Summary. **We recommend keeping the firm on the Watch List and monitoring for continued improvement in performance**.

<u>Small Cap Growth Equity – M. A. Weatherbie & Company</u>

- Weatherbie outperformed the Russell 2000 Growth Index and Mercer US Equity Small Cap Growth universe for all periods evaluated except since inception. Since inception, the fund has returned 4.0% versus the index return of 4.7%. Given the improvements in performance, **we recommend removing the firm from the Watch List.**

<u>Small Cap Value Equity – Dalton, Greiner, Hartman, Maher & Co.</u>

- The portfolio outperformed the Russell 2000 Value Index and placed in the top quartile of the universe for all periods evaluated. Since inception, the portfolio has returned 7.1% versus the benchmark return of 5.2%. **Retention is recommended.**

<u>Small Cap Value Equity – Wedge Capital Management</u>

- Wedge outperformed the Russell 2000 Value Index and Mercer US Equity Small Cap Value median for the quarter. Since inception, the strategy has returned –27.5% versus –26.3% for the index. See Research Note in the Executive Summary. **Retention is recommended.**

<u>Small Cap Value Equity – Thompson Siegel & Walmsley</u>

- Thompson Siegel & Walmsley outperformed the Russell 2000 Value Index and universe median for the recent quarter. Since inception, the strategy has returned –28.1% versus –26.3% for the index. See News Item in the Executive Summary. **Retention is recommended.**

<u>International Equity – INVESCO</u>

- INVESCO outperformed the MSCI EAFE Index and Mercer International Equity Universe median for all periods evaluated. Since inception, the fund has returned –1.8% versus the index return of –2.6%. **Retention is recommended.**

International Equity – Capital Guardian Trust Company

- The portfolio outperformed or matched the MSCI EAFE Index and MSCI EAFE Growth Index all periods except 3 years. Capital Guardian outperformed the universe median for all periods except 3 and 5 years. Since inception, the fund has returned –1.7% versus –1.8% for the MSCI EAFE Index and –4.2% for the MSCI EAFE Growth Index. **Retention is recommended.**

International Equity – LSV Asset Management

- LSV underperformed the MSCI EAFE Index, the MSCI EAFE Value Index, and the universe median for all periods evaluated. Since inception, the strategy has returned –4.1% versus –2.5% for the MSCI EAFE and –3.2% for the MSCI EAFE Value. Because of continued underperformance, **we recommend keeping LSV on the Watch List.**

International Small Cap Equity − AXA Rosenberg

- AXA Rosenberg underperformed the MSCI Small Cap World ex U.S. Index for the quarter but outperformed the index for all other periods evaluated. The strategy underperformed the S&P Developed Small Cap ex U.S. Index for all periods evaluated. It outperformed the universe median for the 1-year period only. Since inception the strategy has returned –5.4% versus –7.0% for the MSCI Small Cap World ex U.S. Index and –4.5% for the S&P Developed Small Cap ex U.S. Index. **Retention is recommended.**

International Small Cap Equity – William Blair & Company

- William Blair underperformed the MSCI Small Cap World ex U.S. Index and the universe median for the quarter. Since inception, the portfolio has returned –29.3% versus –23.6% for the index. The manager was funded September 17, 2008; performance history is too short for a meaningful evaluation. See the Executive Summary for News Item. **Retention is recommended**

Emerging Markets Growth Equity – Capital Guardian Trust Company

- Capital Guardian outperformed the MSCI Emerging Markets Investable Index and placed in the top third of the Mercer Emerging Markets Equity Universe for all periods evaluated. Since inception, the portfolio has returned 4.7% versus 4.5% for the index. The strategy was formally rated by Mercer's research group during the fourth quarter of 2008 and is now B rated. See Research Note in the Executive Summary. **Retention is recommended.**

Fixed Income – Lehman Brothers Asset Management (Enhanced Index)

- During the first quarter of 2008, the Lehman Brothers Passive Bond Index Fund was converted to the Enhanced Bond Index Fund. The fund underperformed the Barclays Capital Aggregate Bond Index (formerly Lehman Brothers Aggregate Bond Index) and placed near the universe median for all periods evaluated. Since inception, the fund has returned 7.3% versus 7.5% for the index. The firm's management will own a 51% stake in the Lehman Brothers Holdings Inc's Investment Management Division which will assume the Neuberger Berman name. We view this as a positive development; see News Item in the Executive Summary. However, due to continued underperformance and subprime exposure (3.0% allocation as of quarter-end), **we recommend keeping Lehman Brothers on the Watch List.**

Fixed Income – Metropolitan West

- Metropolitan West underperformed the Barclays Capital Aggregate Bond Index (formerly Lehman Brothers Aggregate Bond Index) and the universe median for all periods. Since inception, the fund returned 4.1% versus 5.4% for the index. **Retention is recommended.**

Fixed Income – Bradford & Marzec, Inc.

- Bradford & Marzec underperformed the Barclays Capital Aggregate Bond Index (formerly Lehman Brothers Aggregate Bond Index) for all periods except since inception. The strategy outperformed the Mercer US Fixed Combined Universe median for all periods shown. Since inception, the portfolio has returned 8.1% versus 7.4% for the index. See Meeting Note in the Executive Summary. **Retention is recommended.**

Hedge Fund – Blackstone Alternative Asset

- For all periods, the fund underperformed the 91-Day T-Bill Index plus 5% benchmark. Since inception, the fund has returned 4.1% versus the benchmark return of 8.3%. The current market environment continues to weigh heavily on hedge fund managers. Due to market conditions, **it is our recommendation to defer placing Blackstone on the Watch List.**

Hedge Fund – Grosvenor Capital Management

- The portfolio underperformed the 91-Day T-Bill Index plus 5% benchmark for all periods. Since inception, the fund has returned 3.0% versus the index return of 8.3%. The current market environment continues to weigh heavily on hedge fund managers. Due to market conditions, **it is our recommendation to defer placing the Grosvenor on the Watch List.**

Real Estate – BlackRock Realty (formerly SSR Realty Advisors)

- The strategy (leveraged) underperformed the NCREIF Property Index for the quarter, 1-year, and 3-year periods but outperformed for 5 years. Since inception, the portfolio has returned 11.2% versus 10.5% for the index. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **Retention is recommended for the present.**

Real Estate – BlackRock Realty Portfolio II (formerly SSR Realty Advisors Portfolio II)

- The strategy (leveraged) underperformed the NCREIF Property Index for the quarter and 3 years but outperformed for 1 year. Since inception, the portfolio has returned 16.0% versus 11.6% for the index. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **Retention is recommended for the present.**

Real Estate – Cornerstone Real Estate Advisers Separate Account Portfolios

- Cornerstone (leveraged) underperformed the NCREIF Property Index for all periods evaluated. Since inception the fund has returned 7.2% versus the index return of 11.9%. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **Retention is recommended for the present.**

Value Added Real Estate – UBS Realty Investors (Allegis Value Trust)

- UBS outperformed the NCREIF Property Index + 2% for all periods evaluated. Since inception, the portfolio has returned 13.0% versus 7.2% for the index. See News Item in the Executive Summary. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

Value Added Real Estate – AEW Capital Management, LP

- AEW outperformed the NCREIF Property Index + 2% for all periods except since inception. The portfolio has returned 0.5% versus the benchmark return of 3.0% since inception. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

Value Added Real Estate – Hines

- The portfolio outperformed the NCREIF Property Index + 2% for the quarter but has significantly underperformed the index for all other periods. Since inception, the portfolio has returned –15.0% compared to the benchmark of 1.2%. The firm is being reviewed by Mercer's research group as part of the annual due diligence. **We recommend retention for the present.**

Real Estate Limited Partnerships – BlackRock Realty Tower/Granite Property Fund

- BlackRock underperformed the NCREIF Open End Diversified Core Equity Index for all periods. Since inception, the fund has returned 6.6% versus the index return of 7.1%. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

Real Estate Limited Partnerships – Cornerstone Patriot Fund

- The strategy matched the NCREIF Open End Diversified Core Equity Index for the quarter but trailed the index for all other periods. Since inception, the fund has returned 10.3% versus the index's return of 10.5%. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

REITS – Principal Global Investors

- Principal outperformed the FTSE NAREIT Equity Index and placed in the top quartile of the Mercer US Real Estate Public REITS Universe for all periods. Since inception, the portfolio has returned –11.5% versus the index return of –14.1%. See Research Note in the Executive Summary. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

<u>REITS – Urdang Investment Management</u>

- The portfolio outperformed the FTSE NAREIT Equity Index and universe median for all periods shown. Since inception the portfolio has returned –12.0% versus the index return of –14.1%. The firm will be reviewed by Mercer's research group within the next several months as part of the annual due diligence. **We recommend retention for the present.**

<u>REITS – CB Richard Ellis Global</u>

- CB Richard Ellis was funded in October 2008 as a global REITS manager. **Retention is recommended.**

<u>Private Equity – HarbourVest Partners</u>

- The fund outperformed the S&P 500 + 2% Index for all periods shown. Since inception, in the fourth quarter of 2007, the fund has returned –3.6% versus –35.0% for the index. **Retention is recommended.**

<u>Private Equity – Goldman Sachs</u>

- Goldman Sachs was funded in June 2008. The portfolio outperformed the S&P 500 + 2% Index for the quarter. Since inception, the portfolio has returned 0.9% versus –27.1%. **Retention is recommended.**

<u>Private Equity – Abbott Capital Management</u>

- Abbott outperformed the S&P 500 + 2% Index for the quarter. Since inception, the portfolio has returned –7.8% versus –26.6% for the index. **Retention is recommended.**

<u>Private Equity – State Street Global Advisers Russell 2000 SWAPs</u>

- The strategy underperformed the Russell 2000 Index for the recent quarter. Since inception the fund has returned –31.2% versus –26.2% for the index. This strategy is a temporary holder of committed private equity assets. **Retention is recommended.**

Opportunistic – PIMCO Distressed Mortgage Fund

- PIMCO was funded during the fourth quarter of 2007 as an opportunistic investment. See the Executive Summary for News Item. **Retention is recommended.**

Opportunistic – European Credit Management CorePlus (ECL Alpha)

- The fund significantly underperformed the Barclays Capital Aggregate Bond Index for the quarter. Since inception, the fund has returned –31.7% versus 3.5% for the index. See Research Note in the Executive Summary. Because of the significant and continued underperformance as well as a change in ownership at the parent company level, **we recommend placing ECM on the Watch List.**

Opportunistic – State Street Global Advisers Real Asset Strategy

- The portfolio outperformed its benchmark (30% DJ Wilshire REITs, 50% S&P GSCI, and 20% Barclays Capital TIPS) for the quarter. Since inception, the portfolio has returned –39.6% versus the benchmark return of –38.4%. The portfolio was funded in February 2008. Due to the portfolio's short tenure, **retention is recommended.**

Commodities – Lehman Brothers

- The portfolio outperformed the Goldman Sachs Commodity Index for the quarter. Since inception, the portfolio has returned –47.7% versus –54.9% for the index. Lehman Brothers was funded in April 2008. **Retention is recommended.**

Commodities – Blackstone Alternative Asset Management

- Blackstone outperformed the Goldman Sachs Commodity Index for the quarter. Since inception, the portfolio has returned –26.9% versus –54.9% for the index. The portfolio was funded in April 2008. **Retention is recommended.**

Watch List History

- **Independence** was placed on the Watch List in the first quarter of 2004. Termination status in the third quarter of 2004; however, the Board decided to keep them for the present. Placed on the Watch List in the fourth quarter of 2004. Termination status in the third quarter of 2007.
- **INTECH** was placed on the Watch List during the first quarter of 2008 and removed during the third quarter of 2008.
- **Pzena** was placed on the Watch List during the fourth quarter of 2007.
- **O'Shaughnessy (formerly Bear Stearns)** was placed on the Watch List during the fourth quarter of 2007.
- **OFI Institutional Asset Management (Trinity)** was placed on the Watch List in the fourth quarter of 1999. Placed on termination status in the fourth quarter of 2000. Removed from termination status and placed on the Watch List in the first quarter of 2001. Removed from the Watch List in the first quarter of 2002. The portfolio was placed on the Watch List in the fourth quarter of 2005. Termination status in the third quarter of 2007. Terminated during the fourth quarter of 2007.
- **Dalton, Greiner, Hartman, Maher & Co.** was placed on the Watch List in the second quarter of 2003. Removed from Watch List in the third quarter of 2007.
- **TCW Group** was placed on the Watch List in the second quarter of 2001 and was removed from the Watch List in the first quarter of 2002. TCW was placed on the Watch List in the third quarter of 2004. Terminated status in the fourth quarter of 2007.
- **Capital Guardian Trust Company – International Equity** was placed on the Watch List in the third quarter of 2004. Removed from the Watch List in the fourth quarter of 2005.
- **Capital Guardian Trust Company – Emerging Markets Growth** was placed on the Watch List in the second quarter of 2004. Removed from the Watch List in the fourth quarter of 2006.
- **Lehman Brothers Asset Management – Enhanced Index** was placed on the Watch List in the first quarter of 2008.
- **BlackRock Realty Portfolio II (formerly SSR Realty Advisors Portfolio II)** was placed on the Watch List in the fourth quarter of 2001, when PM Realty Advisors, which closed down in the first quarter of 2003, managed it. BlackRock Realty (formerly SSR Realty Advisors) now manages this portfolio separately under a different fee structure, and it was removed from the Watch List during the first quarter of 2003.
- **LSV International Equity** was placed on the Watch List in the second quarter of 2008
- **INVESCO** was placed on the Watch List in the second quarter of 2008 and removed in the third quarter of 2008.

Watch List History, Continued

- **M. A. Weatherbie & Company** was placed on the Watch List in the second quarter of 2008 and removed in the fourth quarter of 2008
- **European Credit Management** was placed on the Watch List in the fourth quarter of 2008.

Comments on Asset Allocation

- Total Fund assets (based on market value) decreased $971.8 million during the quarter, from $5,359.0 million, at September 30, 2008, to $4,387.3 million, at December 31, 2008.

- Based on results of the 2007 Asset–Liability Study and the Portfolio Structuring Analysis, the following actions have been taken:
  - Abbott Capital Management, a private equity manager, was funded in July 2008.
  - A search was conducted for the international REITs asset class in August 2008. CB Richard Ellis was selected as the finalist and funded in October 2008.
  - Goldman Sachs, a private equity manager, was funded in June 2008.
  - The SSgA REITs portfolio was funded in April 2008.
  - Blackstone Alternative Asset Management and Lehman Brothers, commodities managers, were funded in April 2008.
  - A search for an international small cap equity manager has been conducted in May 2008. The finalists selected were William Blair, Fidelity and Victory. William Blair was funded in September 2008.
  - A search for equity extension managers (130/30) was completed in March 2008. JPMorgan, BGI, and UBS were selected as finalists. All three managers were funded in July 2008.
  - A search for enhanced large cap index managers was completed in March 2008. BlackRock and Westridge were selected as finalists. Westridge was funded in June 2008 and BlackRock was funded in July 2008.
  - The SSgA Russell 2000 SWAPs strategy was funded in February 2008 as a temporary account to hold committed assets for private equity.
  - The SSgA Real Asset strategy was funded in February 2008 as a temporary account to hold committed assets for the opportunistic allocation.
  - The European Credit Management – CorePlus (ECL Alpha) fund was funded in January 2008 as part of the opportunistic allocation.
  - A search to replace the TCW Small Cap Value strategy was completed during the first quarter of 2008. Wedge Capital and Thompson, Siegel & Walmsley replaced TCW in April 2008.
  - A search to replace the Independence Large Cap Growth strategy was completed during the first quarter of 2008. Wells Capital Management replaced Independence in April 2008.
  - The Lehman Brothers Passive Bond Index was converted to the Enhanced Bond Index Fund in January 2008.
  - Consultant and staff reviewed commodity candidates during the first quarter of 2008. Blackstone and Lehman were selected as finalists and they were funded in April 2008.
  - OFI (Trinity) was terminated during the fourth quarter of 2007.
  - HarbourVest, a private equity manager, was funded during the fourth quarter of 2007.
  - PIMCO Distressed Mortgage Fund L.P. was funded during the fourth quarter of 2007 as an opportunistic investment.

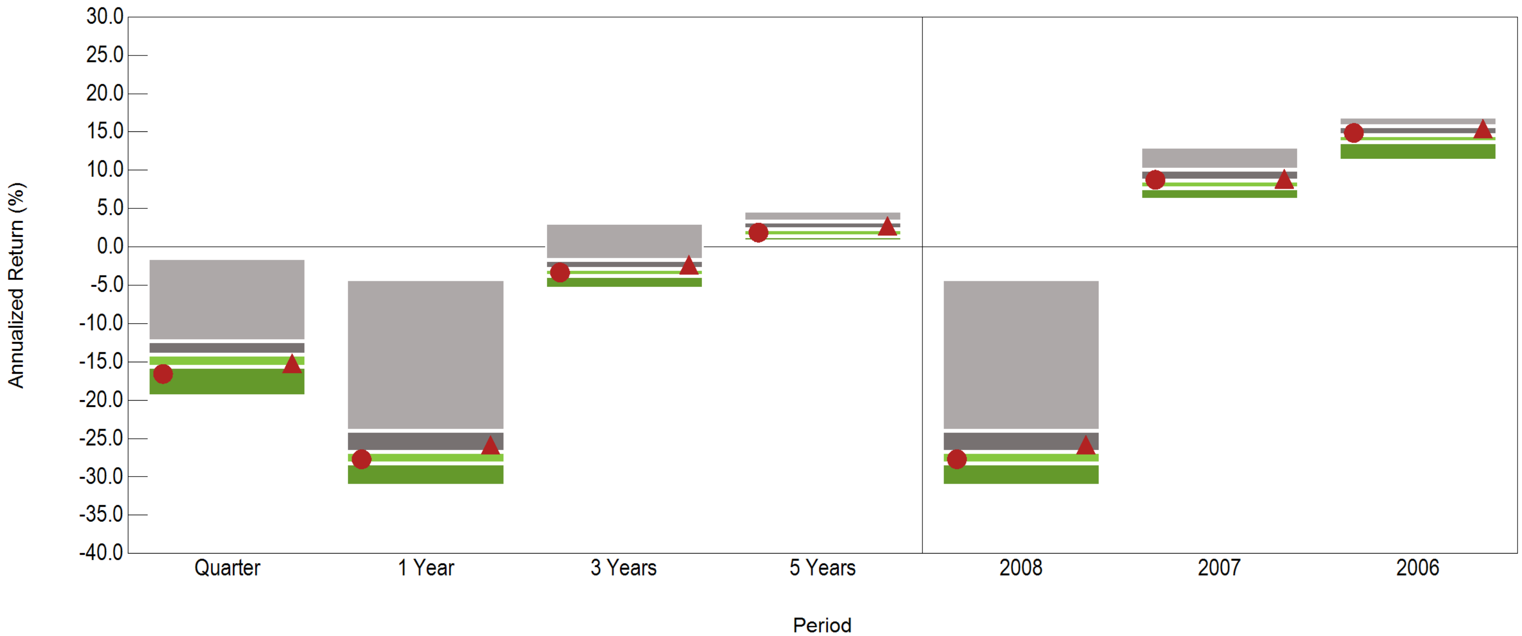
- A large cap growth manager search was completed to select a manager that would add diversification to Independence Investments. INTECH was selected as the finalist and was funded October 2, 2006.
- The real estate value-added manager search has been completed. The candidates selected were AEW Capital Management, Hines and UBS Realty Investors. UBS Realty (Allegis Value Trust) was funded during the fourth quarter of 2006. AEW was funded during the second quarter of 2007. Hines was funded during the third quarter of 2007.
- A small cap growth manager search was completed to select a replacement for Bank of New York. Bank of New York was terminated in March 2006. Bear Sterns (now O'Shaughnessy Asset Management) was selected as the finalist and was funded July 5, 2006.
- An alpha overlay manager search was completed, and SSgA Futures Overlay was funded February 9, 2006.
- Two REITs managers were selected in December 2005: Principal Global Investors and Urdang Securities Management. These managers were funded February 1, 2006.
- INVESCO was hired in March 2005 as the large cap core international equity manager.
- AXA Rosenberg was hired in February 2005 as the small cap value international equity manager.
- Bank of Ireland was terminated October 22, 2004, and Northern Trust Global (EAFE) was terminated in early 2005.
- Oppenheimer Capital was terminated during the last week of October 2004, and two large cap value managers were hired, LSV Asset Management and Pzena Investment Management. These managers were funded November 1, 2004.
- Grosvenor Capital Management and Blackstone Alternative Asset were hired as the long/short hedge fund managers on September 1, 2004.
- Alliance Capital Management (Russell 1000 Value Index) was terminated in June 2004.
- Cornerstone Advisers was hired as a real estate manager in May 2004.

Total Plan

Total Plan

Performance

Total Plan Performance vs. Public Funds >$1B
Ending December 31, 2008

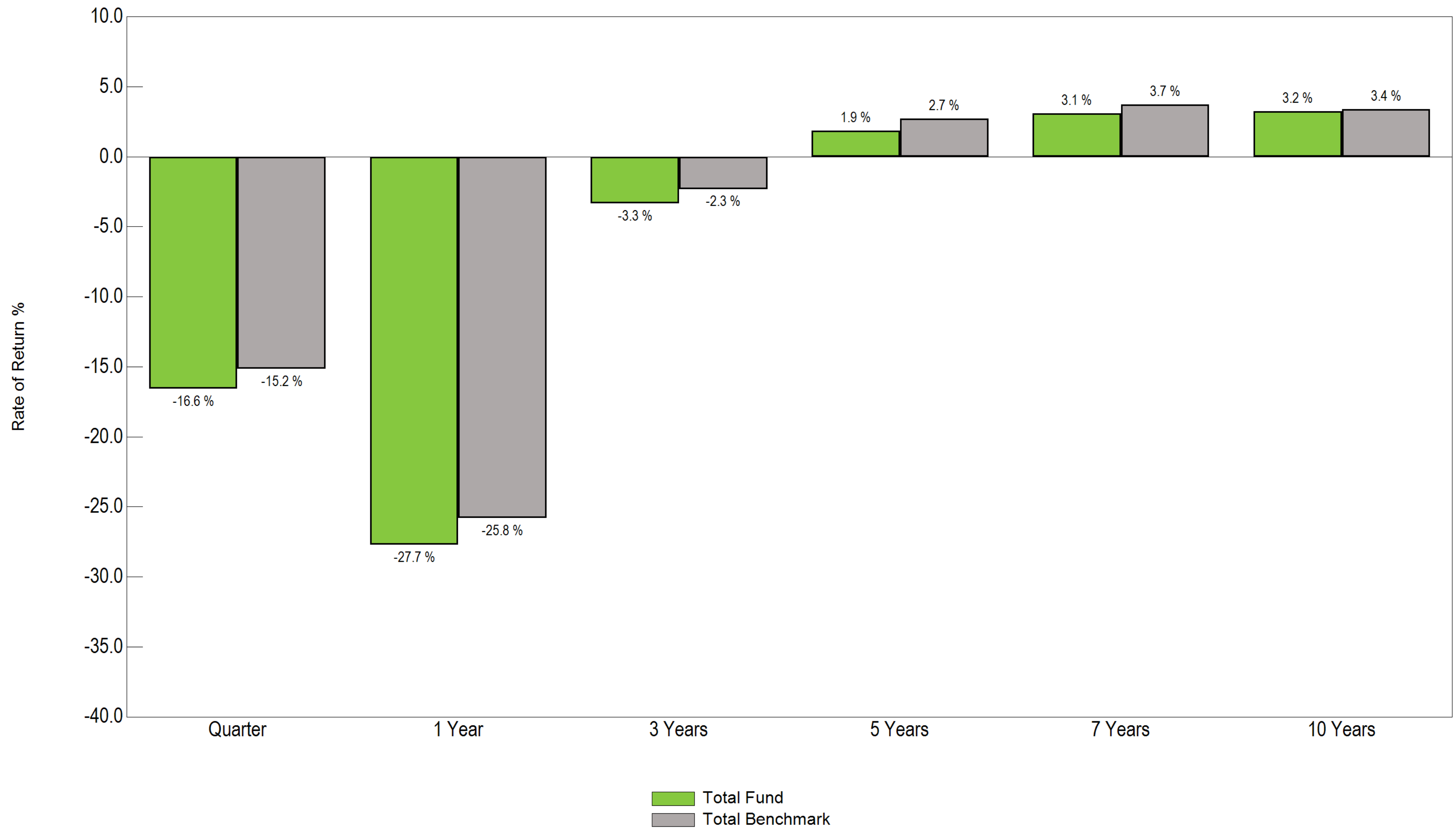


	Return (Rank)													
5th Percentile	-1.5		-4.3		3.1		4.7		-4.3		13.0		16.9	
25th Percentile	-12.4		-24.0		-1.7		3.3		-24.0		10.0		15.7	
Median	-14.1		-26.8		-2.9		2.3		-26.8		8.6		14.5	
75th Percentile	-15.7		-28.3		-3.8		1.3		-28.3		7.6		13.6	
95th Percentile	-19.6		-31.2		-5.5		0.7		-31.2		6.1		11.2	
# of Portfolios	63		59		59		51		59		51		41	
● Total Fund	-16.6	(90)	-27.7	(67)	-3.3	(65)	1.9	(63)	-27.7	(67)	8.7	(48)	14.9	(48)
▲ Total Benchmark	-15.2	(67)	-25.8	(34)	-2.3	(30)	2.7	(36)	-25.8	(34)	8.9	(47)	15.4	(36)

Total Plan

Performance

Fund Return vs. Benchmark Portfolio Return

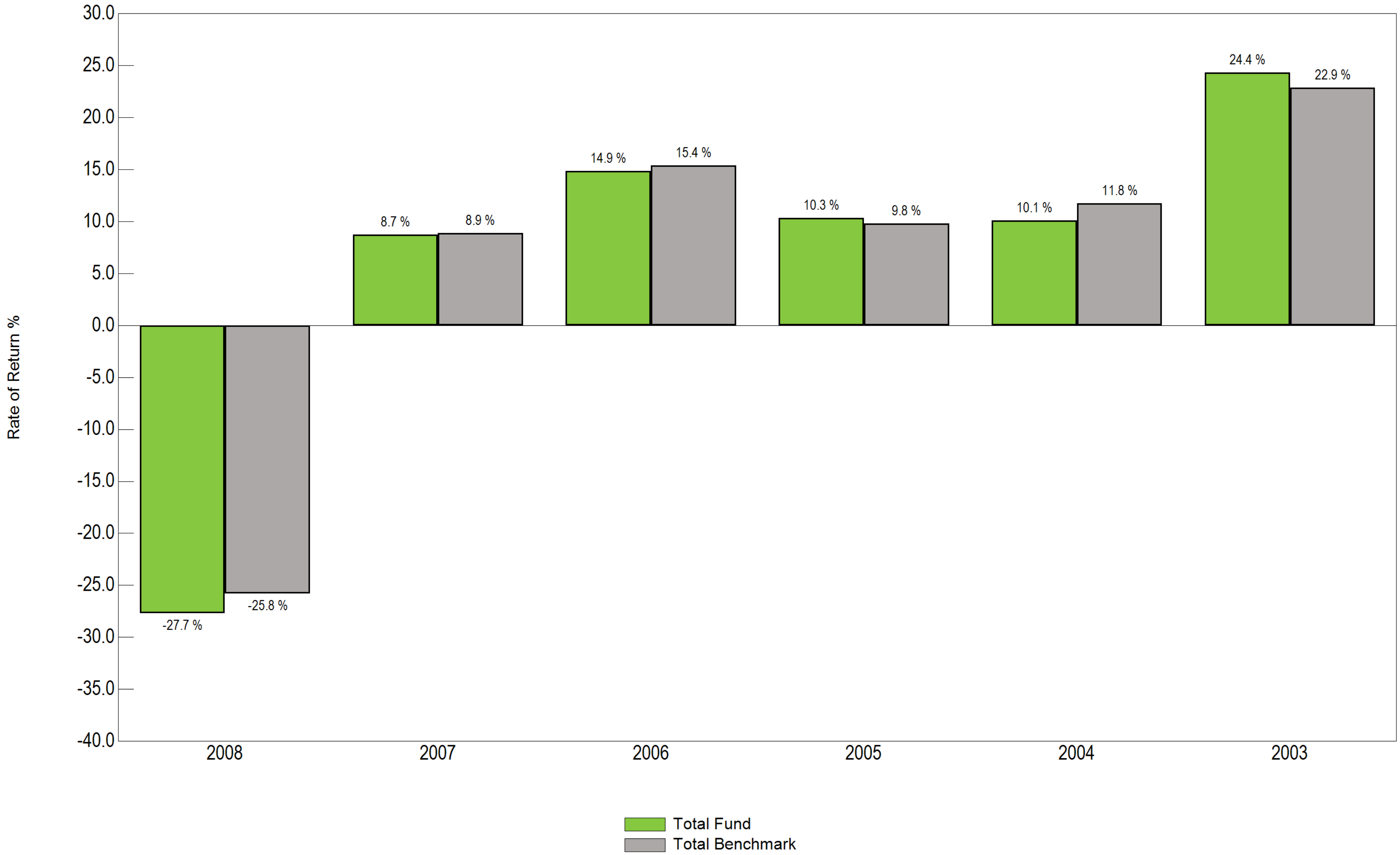


Mercer Investment Consulting, Inc.

Total Plan

Performance

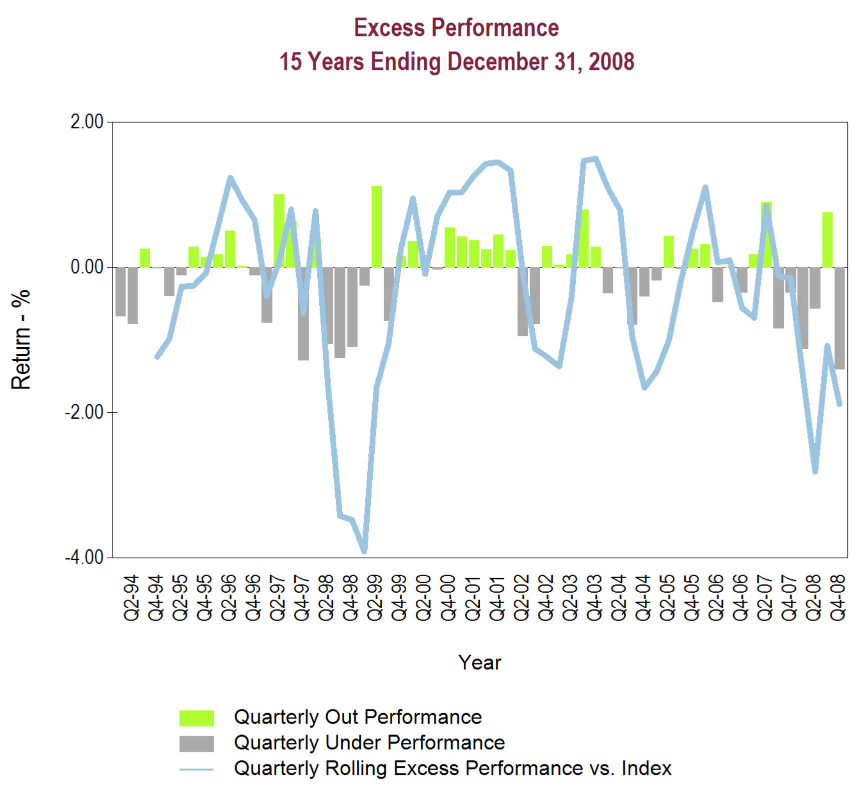
Fund Return vs. Benchmark Portfolio Return

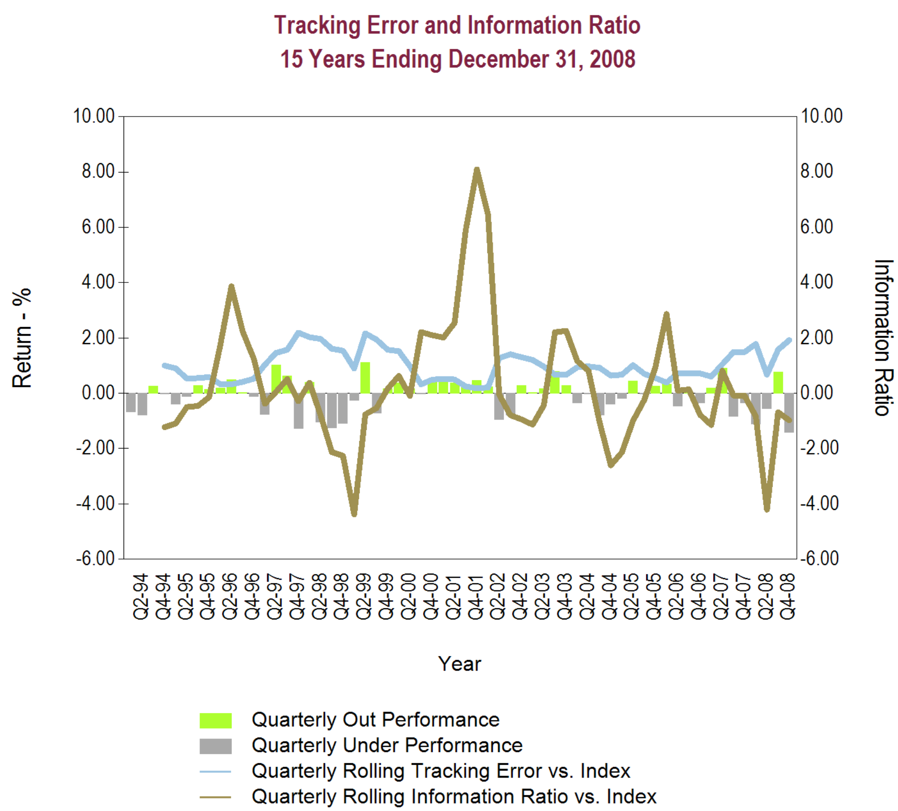


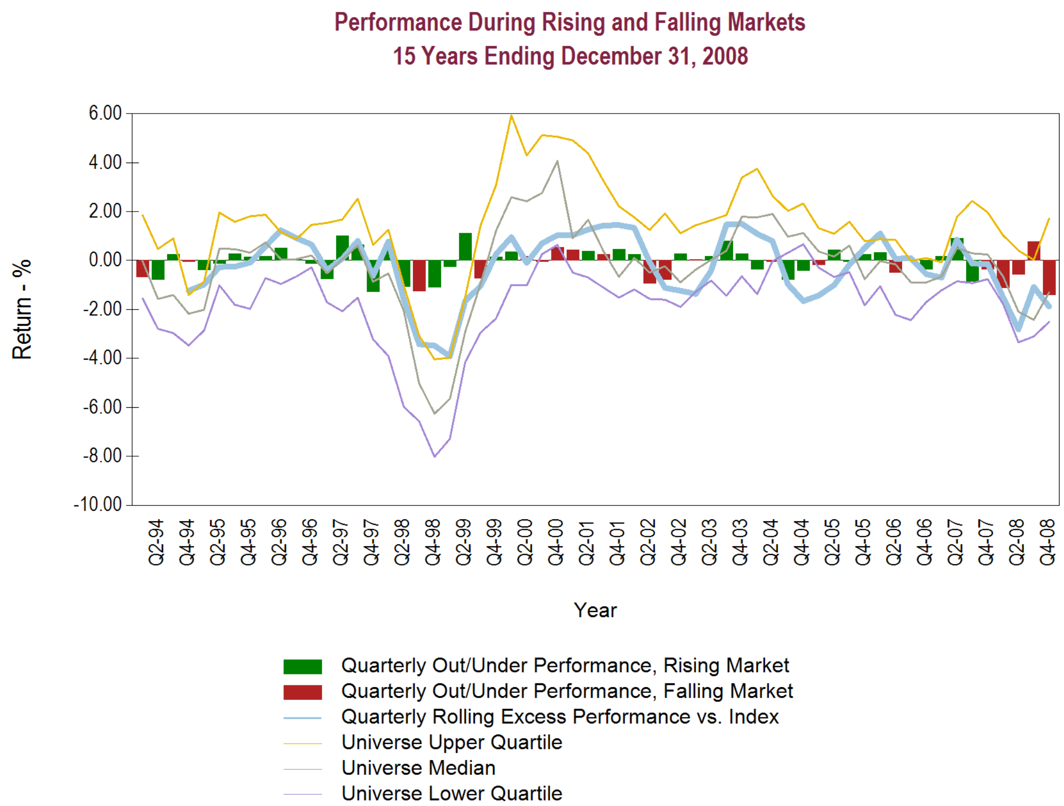
Mercer Investment Consulting, Inc.

Total Plan

Performance and Risk



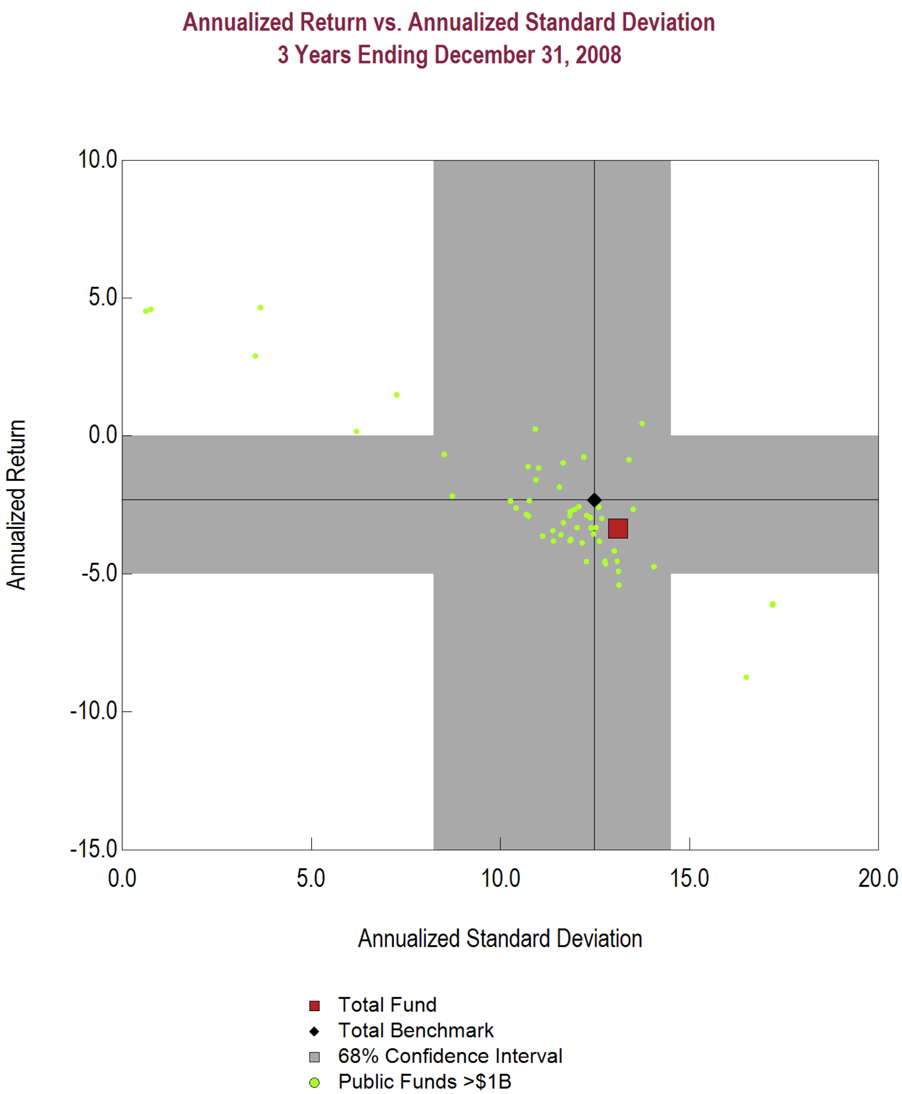


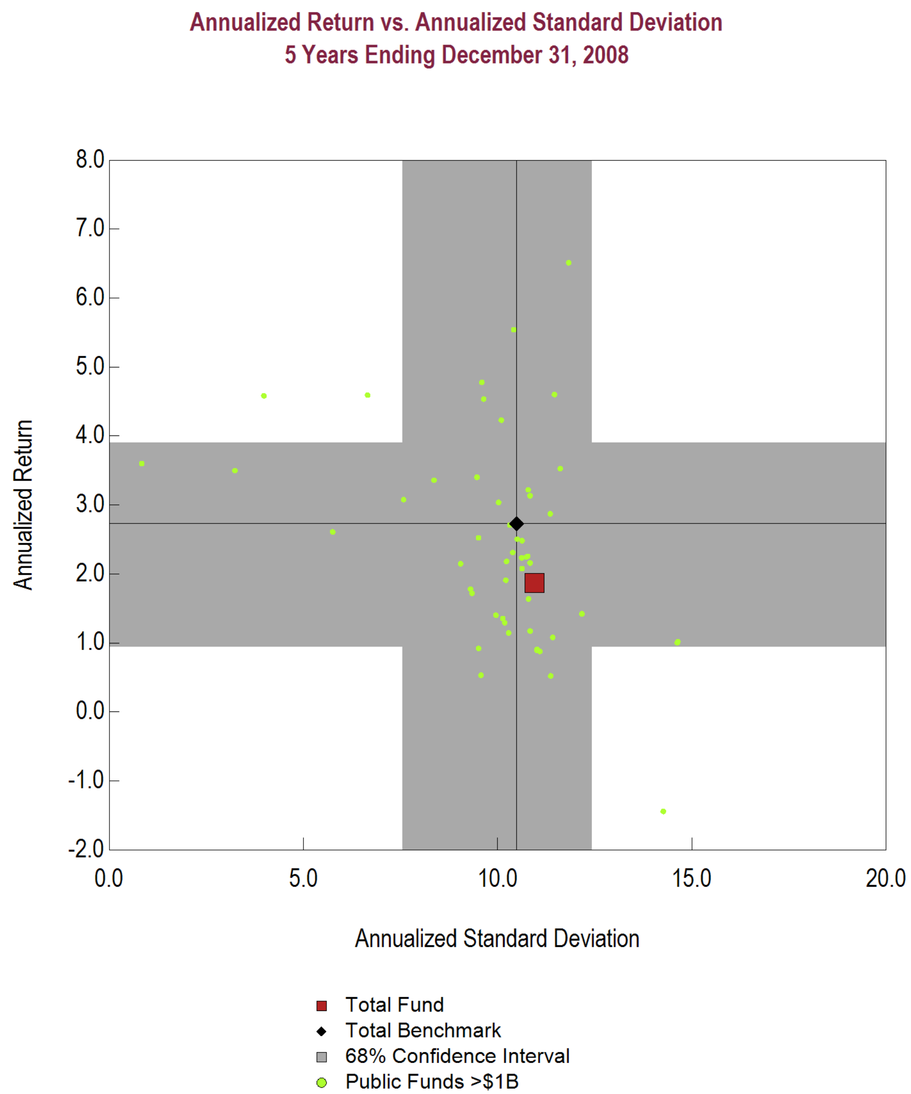


Performance During Rising and Falling Markets
15 Years Ending December 31, 2008
6.00
4.00
2.00
0.00
-2.00
-4.00
-6.00
-8.00
-10.00
Return - %
Q2-94
Q4-94
Q2-95
Q4-95
Q2-96
Q4-96
Q2-97
Q4-97
Q2-98
Q4-98
Q2-99
Q4-99
Q2-00
Q4-00
Q2-01
Q4-01
Q2-02
Q4-02
Q2-03
Q4-03
Q2-04
Q4-04
Q2-05
Q4-05
Q2-06
Q4-06
Q2-07
Q4-07
Q2-08
Q4-08
Year
Quarterly Out/Under Performance, Rising Market
Quarterly Out/Under Performance, Falling Market
Quarterly Rolling Excess Performance vs. Index
Universe Upper Quartile
Universe Median
Universe Lower Quartile

Total Plan

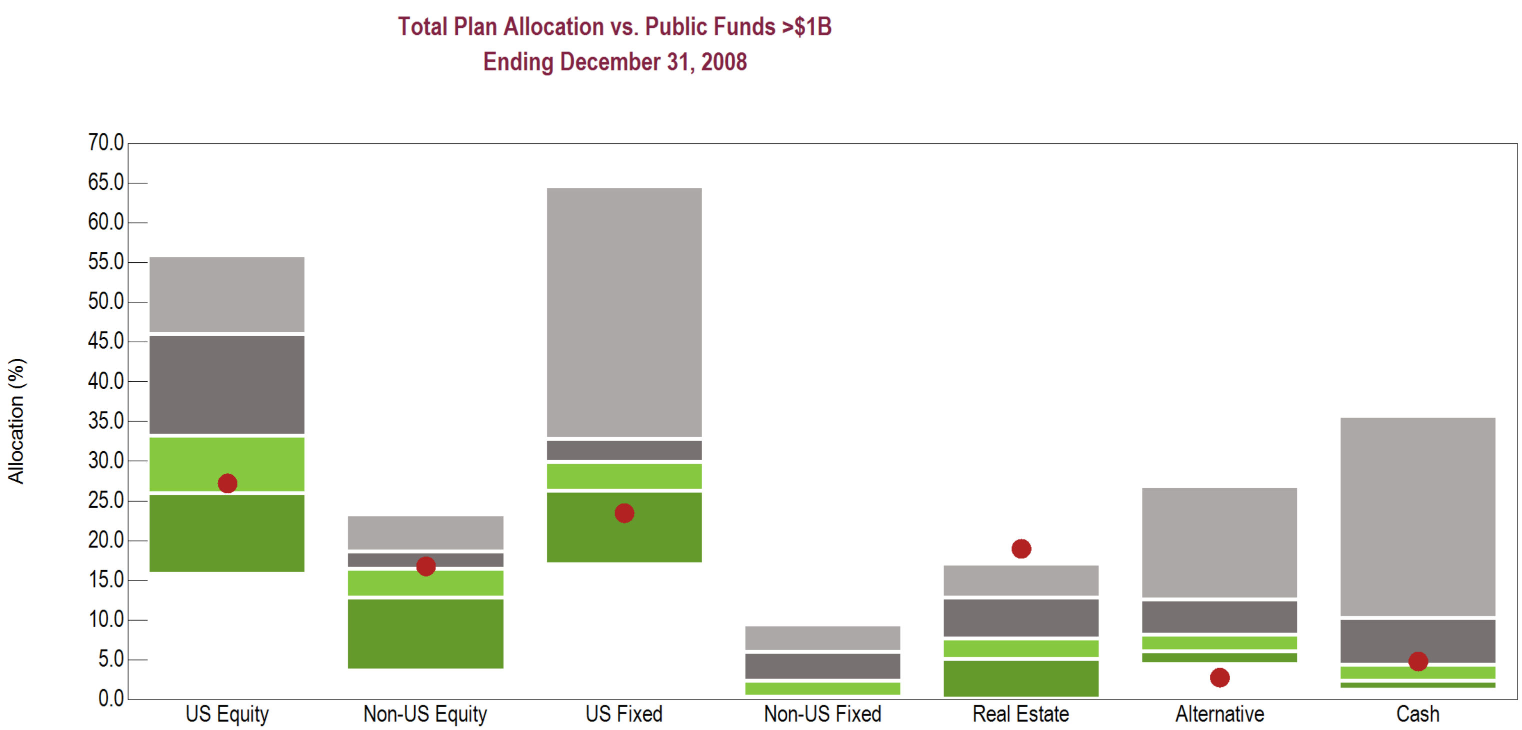
Performance and Risk





Total Plan

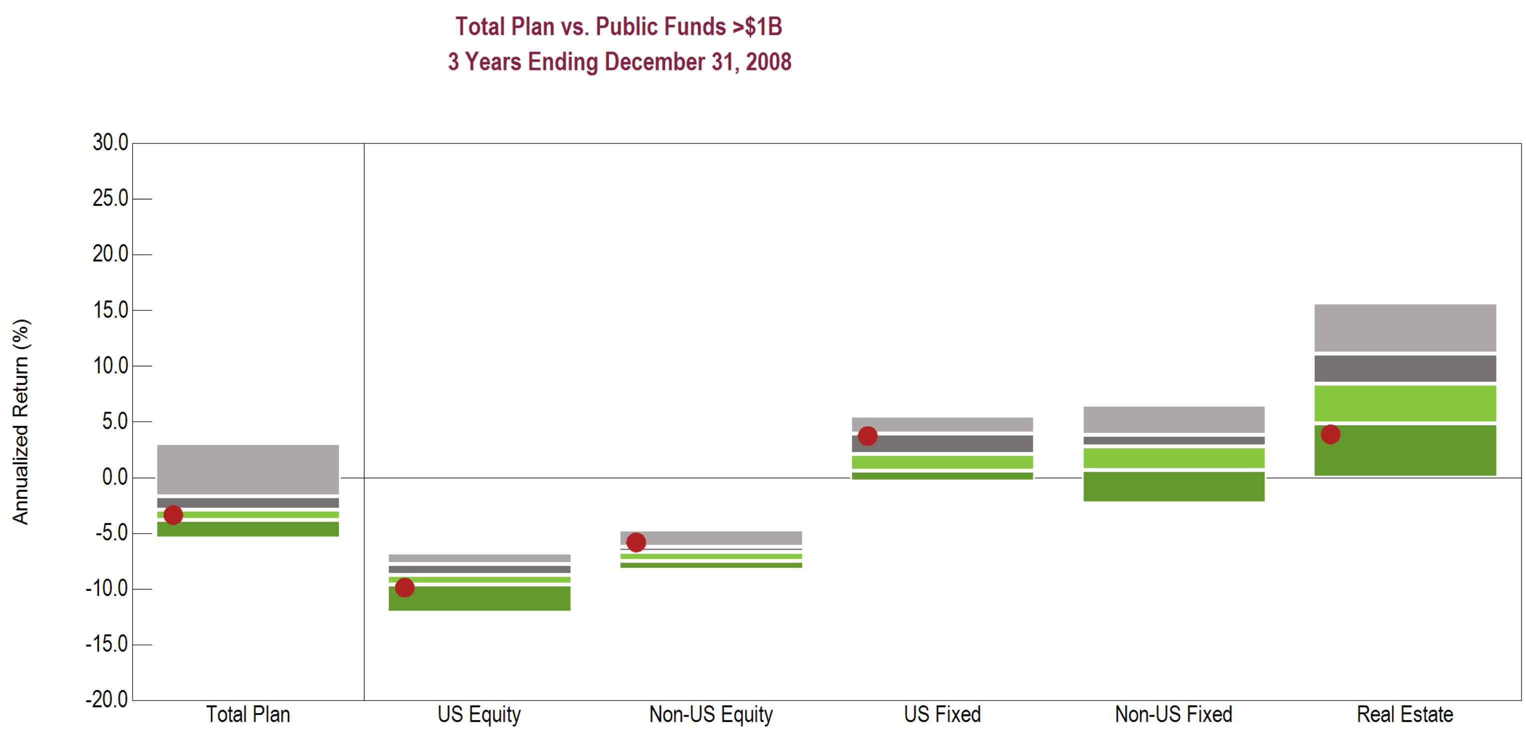
Asset Allocation



Allocation (Rank)	US Equity		Non-US Equity		US Fixed		Non-US Fixed		Real Estate		Alternative		Cash	
5th Percentile	55.9		23.3		64.6		9.4		17.1		26.8		35.7	
25th Percentile	46.0		18.6		32.8		6.0		12.8		12.5		10.2	
Median	33.2		16.4		29.9		2.4		7.6		8.1		4.4	
75th Percentile	25.9		12.8		26.2		0.3		5.1		6.0		2.3	
95th Percentile	15.8		3.6		17.0		0.2		0.1		4.4		1.2	
# of Portfolios	49		50		54		28		19		28		26	
Total Fund	27.2	(72)	16.8	(47)	23.5	(81)	--	(--)	19.0	(3)	2.8	(99)	4.8	(49)

Mercer Investment Consulting, Inc.

Returns by Asset Class: Plan vs. Universe

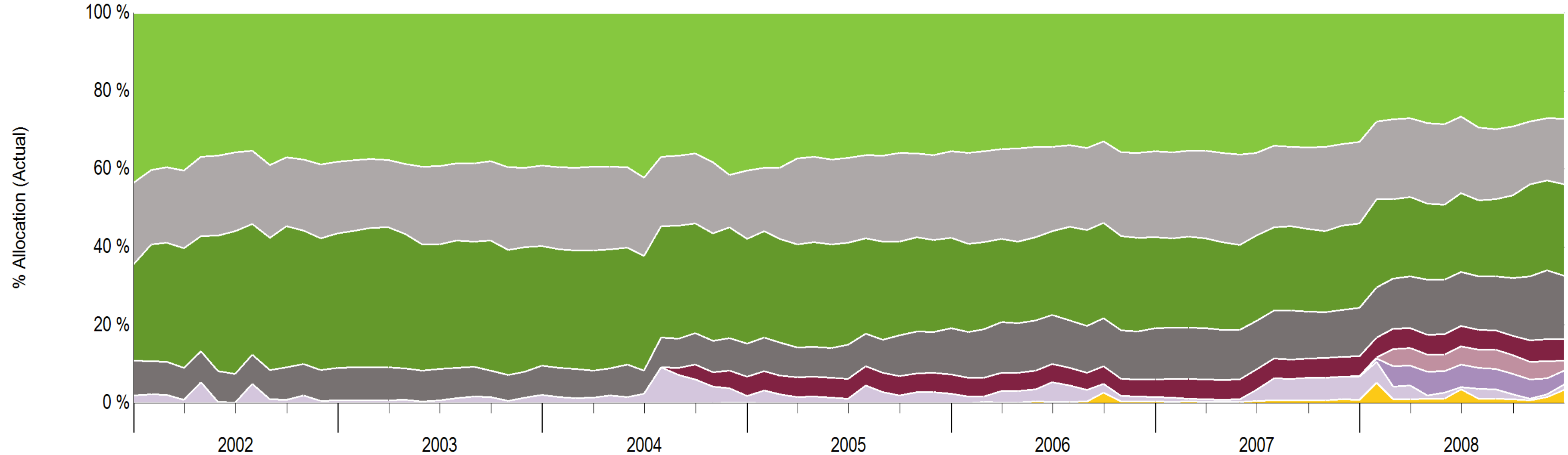


	Return (Rank)											
5th Percentile	3.1		-6.8		-4.7		5.5		6.5		15.7	
25th Percentile	-1.7		-7.8		-6.2		3.9		3.8		11.1	
Median	-2.9		-8.7		-6.7		2.1		2.8		8.4	
75th Percentile	-3.8		-9.6		-7.5		0.6		0.7		4.9	
95th Percentile	-5.5		-12.1		-8.3		-0.4		-2.3		0.0	
# of Portfolios	59		42		41		45		17		15	
Total Fund	-3.3	(65)	-9.9	(81)	-5.8	(21)	3.7	(30)	--	(--)	3.9	(87)

Total Plan

Asset Allocation

Asset Allocation History
7 Years Ending December 31, 2008



	40.4	35.8	37.1	38.1	37.7	39.2	38.0	39.2	39.4	42.2	36.0	40.4	37.3	37.2	35.9	35.4	34.9	34.3	32.9	35.5	35.3	35.9	34.5	33.1	27.0	26.5	29.2	27.2
	19.9	20.2	17.6	18.4	17.2	20.1	20.4	20.6	21.5	20.1	18.0	17.5	22.1	21.6	22.7	22.3	23.0	21.6	20.9	22.0	22.5	21.2	20.9	20.9	20.2	19.7	17.7	16.8
	30.7	36.5	36.2	34.5	35.9	31.9	33.3	30.6	30.8	29.4	28.0	26.9	26.4	26.2	24.1	23.1	21.4	21.5	24.5	23.3	23.0	21.8	21.1	21.7	20.3	20.2	21.1	23.5
	8.2	7.4	8.3	8.4	8.6	8.1	6.8	7.5	6.9	6.0	8.1	8.5	7.6	8.8	10.5	11.9	12.9	12.6	12.4	13.1	13.2	12.5	12.0	12.4	13.3	13.8	14.9	16.1
	--	--	--	--	--	--	--	--	--	--	3.8	4.9	5.0	5.0	4.9	4.8	4.7	4.7	4.4	4.4	5.1	5.2	4.9	5.1	5.1	5.3	5.0	5.6
	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	0.1	4.5	4.5	4.8	2.5
	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	0.0	5.1	5.8	5.2	3.5
	0.8	0.1	0.9	0.7	0.7	0.7	1.5	2.1	1.4	2.4	6.1	1.8	1.6	1.1	2.0	2.4	2.9	5.0	2.3	1.2	0.6	2.9	5.8	5.8	3.5	0.6	1.2	1.4
	--	--	--	--	--	--	--	--	--	--	--	0.1	0.0	0.0	0.0	0.0	0.2	0.3	2.7	0.4	0.3	0.5	0.7	0.9	1.1	3.6	1.0	3.4

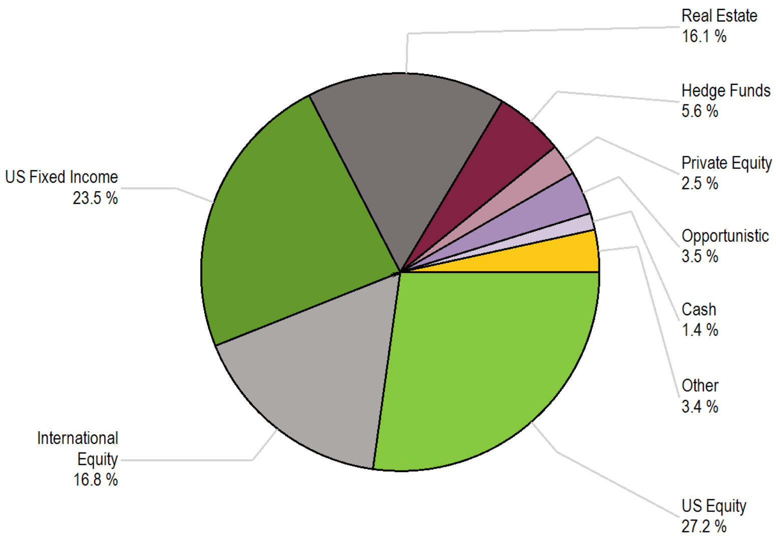
US Equity
International Equity
US Fixed Income
Real Estate
Hedge Funds
Private Equity
Opportunistic
Cash
Other*

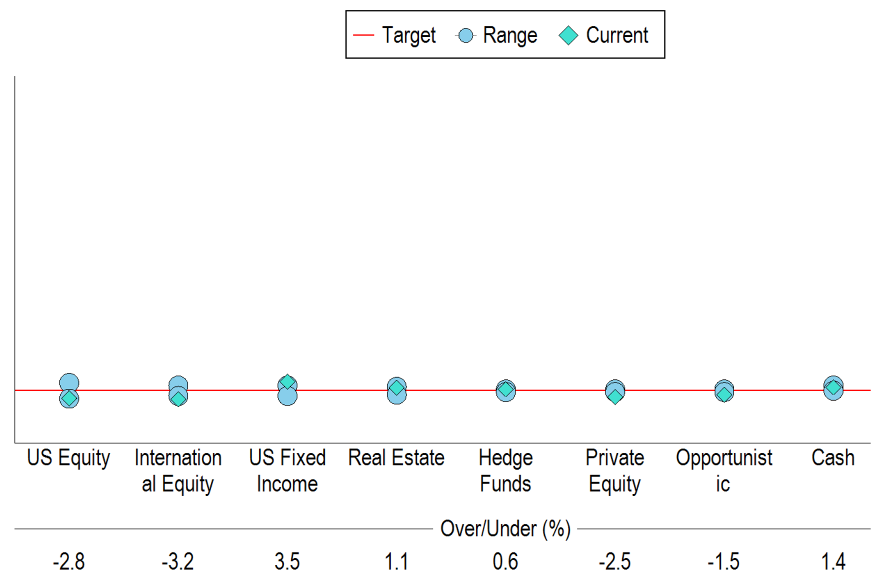
*Other includes Overlay and Cash Transition accounts.

Mercer Investment Consulting, Inc.

Total Plan

Asset Allocation vs. Target





Allocation vs. Targets and Policy

As of December 31, 2008

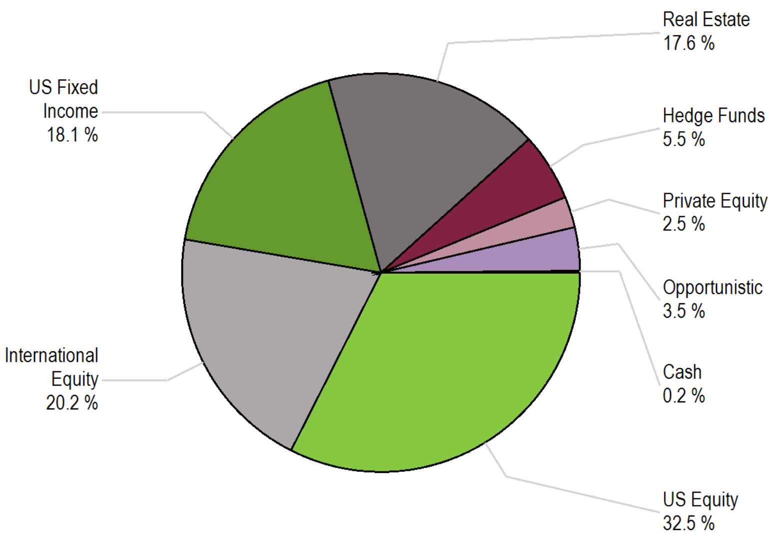
	Current Balance	Current Allocation	Target Allocation	Difference	Target Ranges	Within IPS Range?
US Equity	$1,193,028,952	27.2%	30.0%	-$123,153,061	27.0% - 33.0%	Yes
International Equity	$735,513,061	16.8%	20.0%	-$141,941,615	18.0% - 22.0%	No
US Fixed Income	$1,029,283,125	23.5%	20.0%	$151,828,449	18.0% - 22.0%	No
Real Estate	$708,224,457	16.1%	15.0%	$50,133,450	13.5% - 16.5%	Yes
Hedge Funds	$245,460,498	5.6%	5.0%	$26,096,829	4.5% - 5.5%	No
Private Equity	$111,397,615	2.5%	5.0%	-$107,966,054	4.5% - 5.5%	No
Opportunistic	$154,091,335	3.5%	5.0%	-$65,272,334	4.5% - 5.5%	No
Cash	$59,812,953	1.4%	0.0%	$59,812,953	0.0% - 2.0%	Yes
Other*	$150,461,383	3.4%	--	--	--	--
Total	**$4,387,273,379**	**100.0%**	**100.0%**			

*Other includes Overlay and Cash Transition accounts.

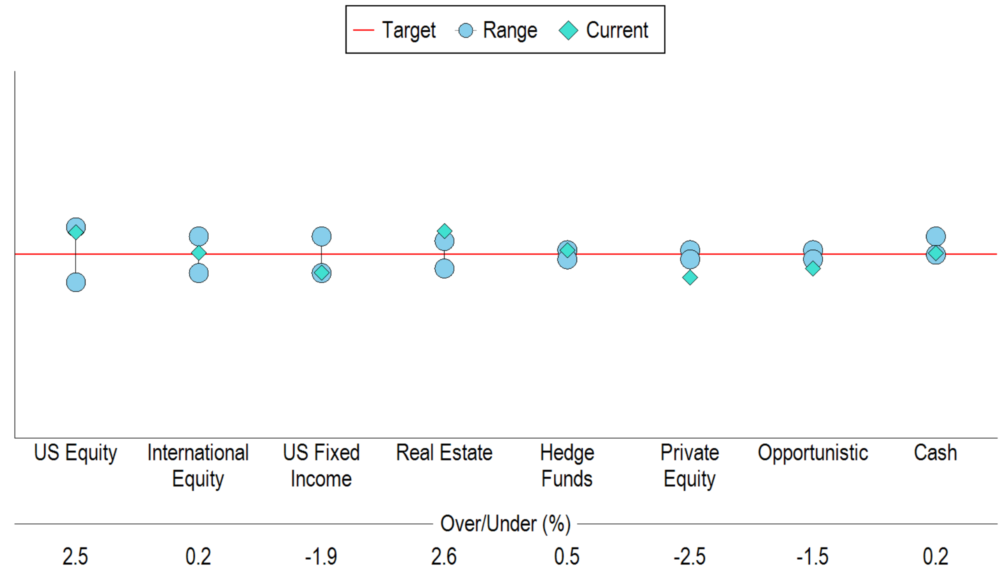
Total Plan Including SSGA Overlay

Asset Allocation vs. Target

Current Allocation



Actual vs. Target



Allocation vs. Targets and Policy

As of December 31, 2008

	Current Balance	Current Allocation	Target Allocation	Difference	Target Ranges	Within IPS Range?
US Equity	$1,424,547,666	32.5%	30.0%	$108,365,652	27.0% - 33.0%	Yes
International Equity	$886,229,222	20.2%	20.0%	$8,774,547	18.0% - 22.0%	Yes
US Fixed Income	$792,341,572	18.1%	20.0%	-$85,113,104	18.0% - 22.0%	Yes
Real Estate	$771,721,387	17.6%	15.0%	$113,630,381	13.5% - 16.5%	No
Hedge Funds	$241,300,036	5.5%	5.0%	$21,936,367	4.5% - 5.5%	Yes
Private Equity	$110,120,562	2.5%	5.0%	-$109,243,107	4.5% - 5.5%	No
Opportunistic	$154,432,023	3.5%	5.0%	-$64,931,646	4.5% - 5.5%	No
Cash	$6,580,910	0.2%	0.0%	$6,580,910	0.0% - 2.0%	Yes
Total	**$4,387,273,379**	**100.0%**	**100.0%**			

Total Plan

Manager Allocation

Asset Allocation by Asset Class, Manager, and Target Policy

	Total Market Value	% of Portfolio	US Equity	International Equity	US Fixed Income	Real Estate	Hedge Funds	Private Equity	Cash	Other*	Opportunistic
Total Domestic											
Total Large Cap											
Large Cap Core Index											
AllianceBernstein L.P. Passive	$429,737,912	9.8%	$429,737,912								
Enhanced Large Cap Core Index											
Westridge	$63,810,870	1.5%	$63,810,870								
BlackRock Financial Mgmt	$61,072,978	1.4%	$61,072,978								
Equity Active Extension (130/30)											
JPMorgan Asset Management	$42,393,666	1.0%	$42,393,666								
UBS Global Asset Management	$40,505,752	0.9%	$40,505,752								
Barclays Global Inv	$42,038,968	1.0%	$42,038,968								
Large Cap Growth											
Wells Capital Management	$77,328,241	1.8%	$77,328,241								
Intech	$82,190,265	1.9%	$82,190,265								
Large Cap Value											
LSV Asset Management Large Cap Value	$69,806,909	1.6%	$69,806,909								
Pzena Investment Management	$65,571,425	1.5%	$65,571,425								
Total Small Cap											
Small Cap Growth											
O'Shaughnessy Asset Management	$29,529,419	0.7%	$29,529,419								
M.A. Weatherbie	$57,089,987	1.3%	$57,089,987								
Small Cap Value											
Dalton Greiner Hartman Maher	$58,807,660	1.3%	$58,807,660								
Wedge Capital Management	$37,429,722	0.9%	$37,429,722								
Thompson, Siegel & Walmsley	$35,715,177	0.8%	$35,715,177								
Total International Equity											
Bank of Ireland	$1,973	0.0%		$1,973							
Total International Equity-Established Markets											
INVESCO	$192,667,475	4.4%		$192,667,475							
Capital Guardian Trust Company International Equity	$173,478,592	4.0%		$173,478,592							
LSV Asset Management International Equity	$135,783,311	3.1%		$135,783,311							

***Other includes Overlay and Cash Transition accounts.**

Total Plan

Manager Allocation

	Total Market Value	% of Portfolio	US Equity	International Equity	US Fixed Income	Real Estate	Hedge Funds	Private Equity	Cash	Other*	Opportunistic
AXA Rosenberg Inv. Mgmt. LLC	$26,663,159	0.6%		$26,663,159							
William Blair	$40,113,202	0.9%		$40,113,202							
Total International Equity-Emerging Markets											
Capital Guardian Trust Company Emerging Markets Growth	$166,805,349	3.8%		$166,805,349							
Total Domestic Fixed Income											
Lehman Brothers Asset Mgmt	$350,220,964	8.0%			$350,220,964						
Metropolitan West Asset Mgmt	$327,743,656	7.5%			$327,743,656						
Bradford & Marzec, Inc	$351,318,505	8.0%			$351,318,505						
Total Hedge Fund											
Blackstone Alternative Asset	$121,404,258	2.8%					$121,404,258				
Grosvenor Capital Mgmt.	$124,056,240	2.8%					$124,056,240				
Total Real Estate											
Separate Account Portfolios											
BlackRock Realty Unleveraged											
BlackRock Realty Leveraged	$167,984,475	3.8%				$167,984,475					
BlackRock Realty Portfolio II Unleveraged											
BlackRock Realty Portfolio II Leveraged	$112,150,733	2.6%				$112,150,733					
Cornerstone Real Est Adv Unleveraged											
Cornerstone Real Est Adv Leveraged	$131,894,751	3.0%				$131,894,751					
Value Added											
UBS Realty Inv LLC Value Added	$10,880,306	0.2%				$10,880,306					
AEW Cap Mgmt Value Added	$9,638,468	0.2%				$9,638,468					
Hines Value Added	$12,641,999	0.3%				$12,641,999					
Limited Partnerships											
BlackRock Realty Granite Property Fund	$60,465,024	1.4%				$60,465,024					
Cornerstone Real Est Adv Patriot Fund	$72,982,724	1.7%				$72,982,724					
Heitman Advisory JMB V	$8,574	0.0%				$8,574					
REITS											
Principal Global Investors	$33,310,199	0.8%				$33,310,199					
Urdang Investment Mgmt. Inc.	$32,806,857	0.7%				$32,806,857					

***Other includes Overlay and Cash Transition accounts.**

Total Plan

Manager Allocation

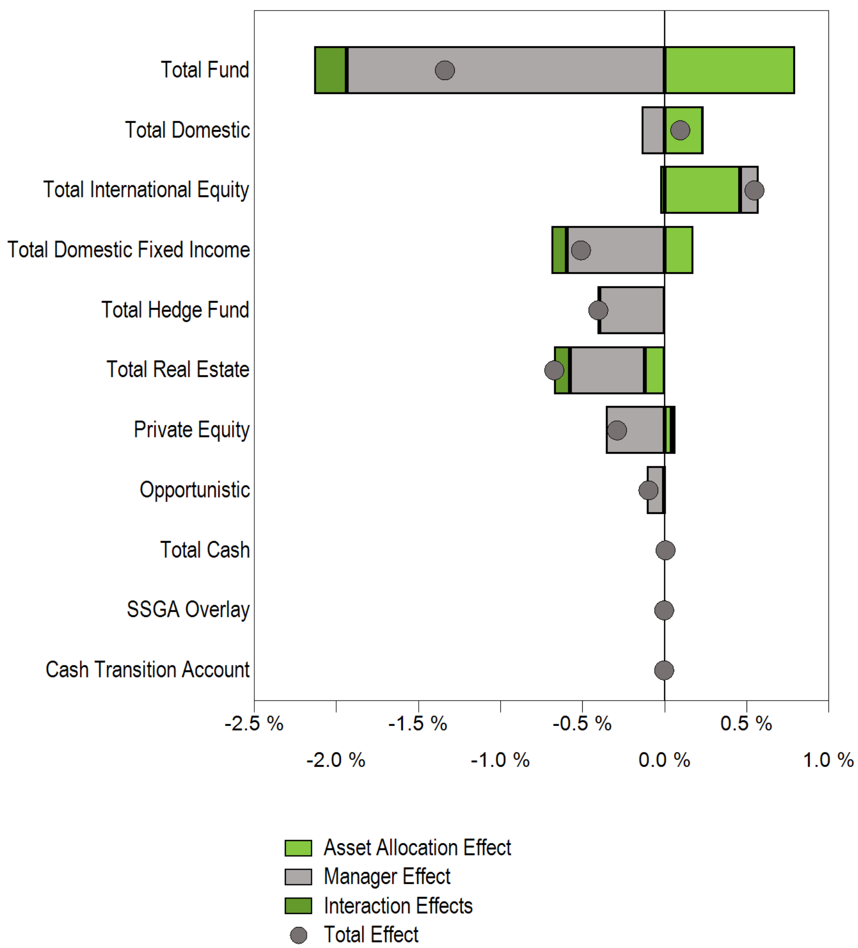
	Total Market Value	% of Portfolio	US Equity	International Equity	US Fixed Income	Real Estate	Hedge Funds	Private Equity	Cash	Other*	Opportunistic
CB Richard Ellis Global	$63,460,346	1.4%				$63,460,346					
Private Equity											
HarbourVest	$15,531,827	0.4%						$15,531,827			
Goldman Sachs & Company	$1,619,117	0.0%						$1,619,117			
Abbott Capital Management	$2,419,980	0.1%						$2,419,980			
State Street Global Advisors Russell 2000 Swap	$91,826,691	2.1%						$91,826,691			
Opportunistic											
PIMCO Advisors Inst Services Distressed Mortgage Fund	$17,811,852	0.4%									$17,811,852
European Credit Management	$33,885,875	0.8%									$33,885,875
State Street Global Advisors Real Asset Strategy	$22,825,257	0.5%									$22,825,257
Commodities											
Lehman Brothers Asset Mgmt	$32,423,736	0.7%									$32,423,736
Blackstone Alternatives Asset	$47,144,616	1.1%									$47,144,616
Total Cash											
Cash	$59,812,953	1.4%							$59,812,953		
SSGA Overlay	$150,015,002	3.4%								$150,015,002	
Cash Transition Account	$446,381	0.0%								$446,381	
Total	**$4,387,273,379**	**100.0%**	**$1,193,028,952**	**$735,513,061**	**$1,029,283,125**	**$708,224,457**	**$245,460,498**	**$111,397,615**	**$59,812,953**	**$150,461,383**	**$154,091,335**
Difference from Target (%)			-2.8%	-3.2%	3.5%	1.1%	0.6%	-2.5%	1.4%	3.4%	-1.5%
Difference from Target ($)			-$123,153,061	-$141,941,615	$151,828,449	$50,133,450	$26,096,829	-$107,966,054	$59,812,953	$150,461,383	-$65,272,334

***Other includes Overlay and Cash Transition accounts.**

Total Plan

Attribution

Attribution Effects Relative to Total Fund Attribution Benchmark
3 Months Ending December 31, 2008



Attribution Summary
3 Months Ending December 31, 2008

	Actual Return	Target Return	Relative Return	Manager Effect	Asset Allocation Effect	Interaction Effects	Total Effects
Total Domestic	-23.3%	-22.8%	-0.5%	-0.1%	0.2%	0.0%	0.1%
Total International Equity	-21.9%	-22.3%	0.4%	0.1%	0.5%	0.0%	0.5%
Total Domestic Fixed Income	1.1%	4.6%	-3.5%	-0.6%	0.2%	-0.1%	-0.5%
Total Hedge Fund	-7.5%	1.4%	-8.9%	-0.4%	0.0%	0.0%	-0.4%
Total Real Estate	-17.0%	-13.6%	-3.4%	-0.5%	-0.1%	-0.1%	-0.7%
Private Equity	-28.0%	-21.1%	-7.0%	-0.4%	0.0%	0.0%	-0.3%
Opportunistic	-31.8%	-30.0%	-1.7%	-0.1%	0.0%	0.0%	-0.1%
Total Cash	0.4%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%
SSGA Overlay	-0.4%	0.3%	-0.7%	0.0%	0.0%	0.0%	0.0%
Cash Transition Account	-1.5%	0.3%	-1.8%	0.0%	0.0%	0.0%	0.0%
Total	**-16.5%**	**-15.2%**	**-1.3%**	**-1.9%**	**0.8%**	**-0.2%**	**-1.3%**

Attribution Summary
3 Months Ending December 31, 2008

	Relative Amount	Manager Effect	Asset Allocation Effect	Interaction Effects	Total Effects
Total Domestic	-$6,808,794.6	-$6,671,763.7	$11,074,355.8	$87,214.2	$4,489,806.4
Total International Equity	$3,288,922.0	$5,402,198.5	$21,871,282.1	-$1,325,992.8	$25,947,487.8
Total Domestic Fixed Income	-$36,877,753.5	-$28,369,909.5	$8,413,810.2	-$4,325,299.5	-$24,281,398.9
Total Hedge Fund	-$22,679,184.4	-$18,857,492.0	$208,915.5	-$624,352.6	-$19,272,929.0
Total Real Estate	-$25,926,811.4	-$21,516,665.9	-$5,786,161.5	-$4,696,043.8	-$31,998,871.3
Private Equity	-$15,247,490.5	-$17,080,210.4	$2,011,330.2	$1,231,598.9	-$13,837,281.3
Opportunistic	-$3,971,363.7	-$5,008,290.6	-$197,652.7	$485,828.6	-$4,720,114.6
Total Cash	$38,301.6	$0.0	$88,391.1	$33,256.1	$121,647.2
SSGA Overlay	-$335,756.2	$0.0	$102,596.0	-$228,975.2	-$126,379.2
Cash Transition Account	-$7,985.7	$0.0	$961.8	-$6,792.6	-$5,830.8
Total		**-$92,102,133.6**	**$37,787,828.6**	**-$9,369,558.5**	**-$63,683,863.6**

Total Plan

Performance Attribution

Performance Attribution
Quarter Ending December 31, 2008

	Quarter	1 Yr	3 Yrs	2008	2007	2006	2005
Total Fund Return	-16.5%	-28.4%	-3.8%	-28.4%	8.7%	14.8%	10.5%
Policy Benchmark	-15.2%	-25.8%	-2.4%	-25.8%	8.9%	15.4%	9.9%
Excess Return	**-1.3%**	**-2.6%**	**-1.4%**	**-2.6%**	**-0.1%**	**-0.6%**	**0.7%**
Selection Effect	-1.9%	-2.3%	-1.2%	-2.3%	0.0%	-0.5%	2.3%
Asset Allocation Effect	0.8%	0.5%	0.2%	0.5%	0.0%	-0.1%	-0.9%
Interaction Effect	-0.2%	-0.9%	-0.4%	-0.9%	-0.1%	0.0%	-0.7%
Returns by Asset Class							
Total Fund	-16.6%	-27.7%	-3.3%	-27.7%	8.7%	14.9%	10.3%
Total Domestic	-23.3%	-38.7%	-9.8%	-38.7%	4.6%	14.5%	6.1%
Total Large Cap	-23.3%	-39.5%	-9.9%	-39.5%	4.9%	15.2%	6.7%
Large Cap Core Index	-22.4%	-37.5%		-37.5%			
Enhanced Large Cap Core Index	-22.1%						
Equity Active Extension (130/30)	-23.1%						
Large Cap Growth	-25.6%	-45.4%		-45.4%			
Large Cap Value	-24.3%						
Total Small Cap	-23.4%	-35.3%	-9.9%	-35.3%	2.4%	10.5%	3.1%
Small Cap Growth	-24.2%	-41.7%		-41.7%			
Small Cap Value	-22.9%						
Total International Equity	-21.9%	-44.6%	-6.3%	-44.6%	15.9%	28.2%	20.9%
Total International Equity-Established Markets	-20.9%	-43.0%	-7.7%	-43.0%	8.5%	26.9%	16.5%
Total International Equity-Emerging Markets	-25.3%	-49.3%	-1.0%	-49.3%	39.4%	37.4%	39.2%
Total Domestic Fixed Income	1.1%	-0.1%	3.8%	-0.1%	6.4%	5.1%	2.5%
Total Hedge Fund	-7.5%	-21.7%	-0.9%	-21.7%	12.6%	10.3%	11.1%
Total Real Estate	-17.0%	-15.8%	3.1%	-15.8%	11.6%	16.5%	31.9%
Separate Account Portfolios	-13.1%						
Value Added	-1.5%	-6.5%		-6.5%			
Limited Partnerships	-13.7%						
REITS	-36.2%						
Private Equity	-28.0%	-29.6%		-29.6%			
Opportunistic	-31.8%	-34.3%		-34.3%			
Commodities	-28.3%						
Total Cash	0.4%	0.1%	3.5%	0.1%	5.3%	5.1%	4.0%

Portfolio Reconciliation By Manager

	Quarter Ending December 31, 2008			
	Beginning Market Value	Net Cash Flow	Net Investment Change	Ending Market Value
Abbott Capital Management	$1,500,000	$1,125,000	-$205,020	$2,419,980
AEW Cap Mgmt Value Added	$7,527,400	$2,227,343	-$116,275	$9,638,468
AllianceBernstein L.P. Passive	$557,539,160	-$3,197,757	-$124,603,490	$429,737,912
AXA Rosenberg Inv. Mgmt. LLC	$36,205,820	-$210,039	-$9,332,621	$26,663,159
Bank of Ireland	$1,993	$0	-$19	$1,973
Barclays Global Inv	$53,480,941	-$16,030	-$11,425,943	$42,038,968
BlackRock Financial Mgmt	$78,463,465	-$24,516	-$17,365,971	$61,072,978
BlackRock Realty Granite Property Fund**	$73,011,591	$0	-$12,546,567	$60,465,024
BlackRock Realty Leveraged*	$198,942,500	-$476,821	-$30,481,204	$167,984,475
BlackRock Realty Portfolio II Leveraged*	$106,231,399	$16,707,818	-$10,788,484	$112,150,733
Blackstone Alternative Asset	$134,316,832	-$390,411	-$12,522,163	$121,404,258
Blackstone Alternatives Asset	$36,572,416	$19,923,376	-$9,351,176	$47,144,616
Bradford & Marzec, Inc	$376,518,077	-$35,326,627	$10,127,055	$351,318,505
Capital Guardian Trust Company Emerging Markets Growth	$223,225,079	-$197,308	-$56,222,421	$166,805,349
Capital Guardian Trust Company International Equity	$214,175,576	-$941,431	-$39,755,553	$173,478,592
Cash	$64,752,076	$3,128,819	-$8,067,942	$59,812,953
Cash Transition Account	$453,279	$0	-$6,898	$446,381
CB Richard Ellis Global	$0	$61,128,570	$2,331,776	$63,460,346
Cornerstone Real Est Adv Leveraged*	$150,747,744	$1,136,908	-$17,716,085	$131,894,751
Cornerstone Real Est Adv Patriot Fund*	$82,111,676	$0	-$9,128,952	$72,982,724
Dalton Greiner Hartman Maher	$76,224,495	-$677,137	-$16,739,698	$58,807,660
European Credit Management	$42,946,259	-$19,922	-$9,040,462	$33,885,875
Goldman Sachs & Company	$1,107,374	$511,743	$0	$1,619,117
Grosvenor Capital Mgmt.	$131,415,480	-$69,853	-$7,289,387	$124,056,240
HarbourVest	$14,999,908	$1,562,500	-$1,030,581	$15,531,827
Heitman Advisory JMB V*	$8,586	$0	-$12	$8,574
Hines Value Added	$12,615,047	$0	$26,952	$12,641,999

* Data as provided by the respective investment managers.
** Cash flow data is unavailable from the investment manager.

Total Plan

Reconciliation

	Quarter Ending December 31, 2008			
	Beginning Market Value	Net Cash Flow	Net Investment Change	Ending Market Value
Intech	$109,490,284	-$104,481	-$27,195,538	$82,190,265
INVESCO	$237,943,854	-$1,323,268	-$43,953,111	$192,667,475
JPMorgan Asset Management	$53,188,350	-$26,286	-$10,768,397	$42,393,666
Lehman Brothers Asset Mgmt	$378,294,687	-$34,769,764	$6,696,041	$350,220,964
Lehman Brothers Asset Mgmt	$47,145,520	-$5,404	-$14,716,380	$32,423,736
LSV Asset Management International Equity	$178,817,492	-$1,885,530	-$41,148,651	$135,783,311
LSV Asset Management Large Cap Value	$91,885,744	-$852,133	-$21,226,701	$69,806,909
M.A. Weatherbie	$74,161,297	-$206,345	-$16,864,965	$57,089,987
Metropolitan West Asset Mgmt	$374,082,986	-$35,551,148	-$10,788,182	$327,743,656
O'Shaughnessy Asset Management	$40,434,418	-$27,075	-$10,877,923	$29,529,419
PIMCO Advisors Inst Services Distressed Mortgage Fund	$12,952,772	$5,996,220	-$1,137,140	$17,811,852
Principal Global Investors	$50,613,631	-$102,294	-$17,201,137	$33,310,199
Pzena Investment Management	$88,622,724	-$702,025	-$22,349,275	$65,571,425
SSGA Overlay	$52,392,740	$146,909,829	-$49,287,566	$150,015,002
State Street Global Advisors Real Asset Strategy	$140,318,951	-$70,003,935	-$47,489,759	$22,825,257
State Street Global Advisors REIT	$54,396,600	-$31,128,570	-$23,268,030	$0
State Street Global Advisors Russell 2000 Swap	$241,613,373	-$78,000,000	-$71,786,682	$91,826,691
Thompson, Siegel & Walmsley	$47,179,609	-$117,801	-$11,346,630	$35,715,177
UBS Global Asset Management	$55,801,127	$1,875	-$15,297,249	$40,505,752
UBS Realty Inv LLC Value Added	$9,785,113	$1,500,000	-$404,807	$10,880,306
Urdang Investment Mgmt. Inc.	$52,266,603	-$73,268	-$19,386,479	$32,806,857
Wedge Capital Management	$48,765,422	-$60,964	-$11,274,735	$37,429,722
Wells Capital Management	$105,125,215	-$80,737	-$27,716,237	$77,328,241
Westridge	$81,842,933	-$36,901	-$17,995,163	$63,810,870
William Blair	$56,816,601	-$119,591	-$16,583,808	$40,113,202
Total	**$5,359,032,217**	**-$37,073,495**	**-$934,685,344**	**$4,387,273,379**

Total Plan

Performance Summary

Total Plan Performance

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008								Inception	
Total Fund*	**$4,387,273,379**	**100.0%**	**-16.6%**	**90**	**-27.7%**	**67**	**-3.3%**	**65**	**1.9%**	**63**	**7.9%**	**Jun-86**
Total Benchmark			*-15.2%*	*67*	*-25.8%*	*34*	*-2.3%*	*30*	*2.7%*	*36*	*8.2%*	*Jun-86*
Public Funds >$1B Median			*-14.1%*		*-26.8%*		*-2.9%*		*2.3%*		*--*	*Jun-86*
Total Fund without SSGA Overlay			-15.7%	--	-27.5%	--	--	--	--	--	-4.8%	Feb-06
Total Fund with SSGA Overlay			-16.6%	--	-28.2%	--	--	--	--	--	-5.2%	Feb-06
Total Domestic	**$1,193,028,952**	**27.2%**	**-23.3%**	**62**	**-38.7%**	**74**	**-9.8%**	**80**	**-2.8%**	**79**	**8.3%**	**Jun-86**
Russell 3000			*-22.8%*	*44*	*-37.3%*	*45*	*-8.6%*	*46*	*-1.9%*	*43*	*8.1%*	*Jun-86*
Public Funds >$1B - US Eq Median			*-23.1%*		*-37.4%*		*-8.7%*		*-2.1%*		*--*	*Jun-86*
Total Large Cap	**$974,456,986**	**22.2%**	**-23.3%**	**69**	**-39.5%**	**72**	**-9.9%**	**78**	**-2.8%**	**83**	**-0.7%**	**Mar-98**
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*0.0%*	*Mar-98*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*1.8%*	*Mar-98*
Large Cap Core Index	**$429,737,912**	**9.8%**	**-22.4%**	**57**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.1%**	**Oct-08**
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*--*	*Oct-08*
AllianceBernstein L.P. Passive	$429,737,912	9.8%	-22.4%	57	-37.5%	57	-8.6%	62	-2.0%	71	8.0%	Mar-89
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*8.2%*	*Mar-89*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*9.3%*	*Mar-89*
Enhanced Large Cap Core Index	**$124,883,848**	**2.8%**	**-22.1%**	**56**	**--**	**--**	**--**	**--**	**--**	**--**	**-5.9%**	**Oct-08**
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Oct-08*
Westridge	$63,810,870	1.5%	-22.0%	55	--	--	--	--	--	--	-29.0%	Jun-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-29.7%*	*Jun-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*-29.3%*	*Jun-08*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	Ending December 31, 2008								Inception	
			3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
BlackRock Financial Mgmt	$61,072,978	1.4%	-22.1%	57	--	--	--	--	--	--	-28.5%	Jul-08
S&P 500 Index (Total Return)			*-21.9%*	*53*	*-37.0%*	*55*	*-8.4%*	*61*	*-2.2%*	*78*	*-27.9%*	*Jul-08*
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Equity Active Extension (130/30)	**$124,938,386**	**2.8%**	**-23.1%**	**71**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.4%**	**Oct-08**
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Oct-08*
JPMorgan Asset Management	$42,393,666	1.0%	-20.3%	22	--	--	--	--	--	--	-25.9%	Jul-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
UBS Global Asset Management	$40,505,752	0.9%	-27.4%	98	--	--	--	--	--	--	-32.0%	Jul-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Barclays Global Inv	$42,038,968	1.0%	-21.4%	40	--	--	--	--	--	--	-29.9%	Jul-08
S&P 500 Index (Total Return)			*-21.9%*	*53*	*-37.0%*	*55*	*-8.4%*	*61*	*-2.2%*	*78*	*-27.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Large Cap Growth	**$159,518,506**	**3.6%**	**-25.6%**	**83**	**--**	**--**	**--**	**--**	**--**	**--**	**-9.1%**	**Oct-08**
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-6.3%*	*Oct-08*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Oct-08*
Wells Capital Management	$77,328,241	1.8%	-26.4%	89	--	--	--	--	--	--	-42.6%	Apr-08
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-34.9%*	*Apr-08*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Apr-08*
Intech	$82,190,265	1.9%	-24.8%	78	-42.2%	75	--	--	--	--	-17.3%	Oct-06
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-14.9%*	*Oct-06*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Oct-06*
Large Cap Value	**$135,378,334**	**3.1%**	**-24.3%**	**81**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.0%**	**Oct-08**
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-5.9%*	*Oct-08*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-08*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Since
			Ending December 31, 2008								Inception	
LSV Asset Management Large Cap Value	$69,806,909	1.6%	-23.3%	70	-40.9%	87	-9.3%	74	--	--	-1.8%	Oct-04
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-2.6%*	*Oct-04*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-04*
Pzena Investment Management	$65,571,425	1.5%	-25.3%	86	-44.8%	94	-16.9%	98	--	--	-8.0%	Oct-04
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-2.6%*	*Oct-04*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-04*
Total Small Cap	**$218,571,966**	**5.0%**	**-23.4%**	**22**	**-35.3%**	**44**	**-9.9%**	**59**	**-3.2%**	**81**	**10.7%**	**Dec-90**
Russell 2000			*-26.1%*	*53*	*-33.8%*	*36*	*-8.3%*	*44*	*-0.9%*	*58*	*9.2%*	*Dec-90*
Mercer Instl US Equity Small Cap Median			*-25.9%*		*-36.8%*		*-9.0%*		*-0.4%*		*11.8%*	*Dec-90*
Small Cap Growth	**$86,619,407**	**2.0%**	**-24.2%**	**20**	**--**	**--**	**--**	**--**	**--**	**--**	**-5.0%**	**Oct-08**
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*-7.3%*	*Oct-08*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*--*	*Oct-08*
O'Shaughnessy Asset Management	$29,529,419	0.7%	-27.0%	58	-48.4%	90	--	--	--	--	-26.1%	Jul-06
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*-11.6%*	*Jul-06*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*--*	*Jul-06*
M.A. Weatherbie	$57,089,987	1.3%	-22.7%	13	-37.5%	21	-7.9%	34	-0.9%	38	4.0%	Dec-02
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*4.7%*	*Dec-02*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*4.9%*	*Dec-02*
Small Cap Value	**$131,952,559**	**3.0%**	**-22.9%**	**27**	**--**	**--**	**--**	**--**	**--**	**--**	**-4.2%**	**Oct-08**
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Oct-08*
Dalton Greiner Hartman Maher	$58,807,660	1.3%	-22.1%	19	-23.8%	6	-3.2%	12	3.2%	22	7.1%	Dec-00
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*5.2%*	*Dec-00*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*6.3%*	*Dec-00*
Wedge Capital Management	$37,429,722	0.9%	-23.0%	28	--	--	--	--	--	--	-27.5%	Apr-08
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-26.3%*	*Apr-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Apr-08*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008									
Thompson, Siegel & Walmsley	$35,715,177	0.8%	-24.0%	40	--	--	--	--	--	--	-28.1%	Apr-08
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-26.3%*	*Apr-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Apr-08*
Total International Equity	**$735,513,061**	**16.8%**	**-21.9%**	**62**	**-44.6%**	**42**	**-6.3%**	**27**	**3.2%**	**34**	**5.3%**	**Dec-87**
MSCI EAFE			*-20.0%*	*16*	*-43.4%*	*24*	*-7.4%*	*73*	*1.7%*	*92*	*4.2%*	*Dec-87*
Public Funds >$1B - Non-US Eq Median			*-21.4%*		*-44.9%*		*-6.7%*		*2.7%*		*5.7%*	*Dec-87*
Total International Equity-Established Markets	**$568,705,739**	**13.0%**	**-20.9%**	**57**	**-43.0%**	**49**	**-7.7%**	**72**	**1.3%**	**84**	**0.8%**	**Mar-98**
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*1.2%*	*Mar-98*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*3.3%*	*Mar-98*
INVESCO	$192,667,475	4.4%	-18.5%	29	-39.8%	25	-5.8%	46	--	--	-1.8%	Mar-05
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-2.6%*	*Mar-05*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*-1.0%*	*Mar-05*
Capital Guardian Trust Company International Equity	$173,478,592	4.0%	-18.7%	30	-42.4%	44	-7.4%	68	1.7%	77	-1.7%	Dec-99
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-1.8%*	*Dec-99*
MSCI EAFE Growth			*-20.1%*	*44*	*-42.7%*	*47*	*-6.5%*	*56*	*1.4%*	*82*	*-4.2%*	*Dec-99*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*0.2%*	*Dec-99*
LSV Asset Management International Equity	$135,783,311	3.1%	-23.2%	77	-46.8%	80	-9.9%	93	--	--	-4.1%	Dec-04
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-2.5%*	*Dec-04*
MSCI EAFE Value			*-19.8%*	*41*	*-44.1%*	*60*	*-8.2%*	*80*	*1.8%*	*75*	*-3.2%*	*Dec-04*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*-1.1%*	*Dec-04*
AXA Rosenberg Inv. Mgmt. LLC	$26,663,159	0.6%	-25.8%	80	-47.9%	45	-11.5%	73	--	--	-5.4%	Feb-05
MSCI Small Cap World ex US			*-23.6%*	*60*	*-48.1%*	*46*	*-13.7%*	*90*	*0.8%*	*83*	*-7.0%*	*Feb-05*
S&P Developed SmallCap ex US			*-23.8%*	*61*	*-47.7%*	*44*	*-10.1%*	*60*	*2.7%*	*77*	*-4.5%*	*Feb-05*
Mercer Instl Intl Equity Small Cap Median			*-22.7%*		*-48.5%*		*-9.6%*		*4.3%*		*--*	*Feb-05*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	Ending December 31, 2008 3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Since
William Blair	$40,113,202	0.9%	-29.2%	95	--	--	--	--	--	--	-29.2%	Sep-08
MSCI Small Cap World ex US			*-23.6%*	*60*	*-48.1%*	*46*	*-13.7%*	*90*	*0.8%*	*83*	*-23.6%*	*Sep-08*
Mercer Instl Intl Equity Small Cap Median			*-22.7%*		*-48.5%*		*-9.6%*		*4.3%*		*-22.7%*	*Sep-08*
Total International Equity-Emerging Markets	**$166,805,349**	**3.8%**	**-25.3%**	**19**	**-49.3%**	**20**	**-1.0%**	**17**	**10.4%**	**26**	**4.7%**	**Jan-00**
MSCI EM (Emerging Markets)			*-27.6%*	*37*	*-53.3%*	*41*	*-4.9%*	*58*	*7.7%*	*67*	*4.0%*	*Jan-00*
Mercer Instl Emerging Markets Equity Median			*-28.7%*		*-54.1%*		*-4.6%*		*8.5%*		*--*	*Jan-00*
Capital Guardian Trust Company Emerging Markets Growth	$166,805,349	3.8%	-25.3%	19	-49.3%	20	-1.0%	17	10.4%	26	4.7%	Jan-00
MSCI Emerging Markets Investable Market Index			*-27.4%*	*37*	*-50.1%*	*22*	*-4.9%*	*58*	*6.3%*	*89*	*4.5%*	*Jan-00*
Mercer Instl Emerging Markets Equity Median			*-28.7%*		*-54.1%*		*-4.6%*		*8.5%*		*--*	*Jan-00*
Total Domestic Fixed Income	**$1,029,283,125**	**23.5%**	**1.1%**	**34**	**-0.1%**	**34**	**3.8%**	**29**	**3.8%**	**30**	**7.6%**	**Jun-86**
Barclays Capital Aggregate			*4.6%*	*6*	*5.2%*	*5*	*5.5%*	*6*	*4.7%*	*8*	*7.3%*	*Jun-86*
Public Funds >$1B - US FI Median			*-0.5%*		*-4.1%*		*2.1%*		*3.2%*		*--*	*Jun-86*
Lehman Brothers Asset Mgmt	$350,220,964	8.0%	2.9%	45	1.8%	51	4.2%	51	3.9%	48	7.3%	May-88
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*7.5%*	*May-88*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*--*	*May-88*
Metropolitan West Asset Mgmt	$327,743,656	7.5%	-2.8%	78	-5.4%	75	2.4%	70	3.1%	67	4.2%	Dec-01
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*5.4%*	*Dec-01*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*4.8%*	*Dec-01*
Bradford & Marzec, Inc	$351,318,505	8.0%	3.2%	40	3.5%	41	4.6%	45	4.4%	36	8.1%	Jun-88
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*7.4%*	*Jun-88*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*7.2%*	*Jun-88*
Total Hedge Fund	**$245,460,498**	**5.6%**	**-7.5%**	**--**	**-21.7%**	**--**	**-0.9%**	**--**	**--**	**--**	**3.6%**	**Aug-04**
T-BILLS + 5%			*1.4%*	*--*	*6.7%*	*--*	*8.6%*	*--*	*8.0%*	*--*	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	*--*	*-19.8%*	*--*	*1.4%*	*--*	*5.0%*	*--*	*5.4%*	*Aug-04*
Blackstone Alternative Asset	$121,404,258	2.8%	-9.3%	--	-23.2%	--	-1.4%	--	--	--	4.1%	Aug-04
T-BILLS + 5%			*1.4%*	*--*	*6.7%*	*--*	*8.6%*	*--*	*8.0%*	*--*	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	*--*	*-19.8%*	*--*	*1.4%*	*--*	*5.0%*	*--*	*5.4%*	*Aug-04*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	Ending December 31, 2008								Inception	
Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
Grosvenor Capital Mgmt.	$124,056,240	2.8%	-5.6%	--	-20.2%	--	-0.5%	--	--	--	3.0%	Aug-04
T-BILLS + 5%			*1.4%*	--	*6.7%*	--	*8.6%*	--	*8.0%*	--	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	--	*-19.8%*	--	*1.4%*	--	*5.0%*	--	*5.4%*	*Aug-04*
Total Real Estate*	**$708,224,457**	**16.1%**	**-17.0%**	**97**	**-15.8%**	**95**	**3.1%**	**89**	**9.7%**	**82**	**7.2%**	**Sep-87**
NCREIF Property Index			*-8.3%*	*67*	*-6.5%*	*46*	*8.1%*	*55*	*11.7%*	*76*	*8.0%*	*Sep-87*
Public Funds >$1B - Real Estate Median			*-6.5%*		*-7.6%*		*8.4%*		*13.4%*		*10.2%*	*Sep-87*
Separate Account Portfolios*	**$412,029,959**	**9.4%**	**-13.1%**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**-13.1%**	**Oct-08**
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*-8.3%*	*Oct-08*
BlackRock Realty Unleveraged	--	--	-10.0%	--	-7.4%	--	7.1%	--	10.7%	--	11.4%	Sep-95
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*11.0%*	*Sep-95*
BlackRock Realty Leveraged	$167,984,475	3.8%	-15.8%	--	-14.1%	--	6.8%	--	11.8%	--	11.2%	Dec-98
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*10.5%*	*Dec-98*
BlackRock Realty Portfolio II Unleveraged	--	--	-8.6%	--	-3.9%	--	6.7%	--	13.4%	--	11.2%	Sep-00
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*10.3%*	*Sep-00*
BlackRock Realty Portfolio II Leveraged	$112,150,733	2.6%	-9.4%	--	-4.8%	--	7.1%	--	--	--	16.0%	Jun-04
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*11.6%*	*Jun-04*
Cornerstone Real Est Adv Unleveraged	--	--	-8.4%	--	-5.8%	--	4.5%	--	--	--	6.1%	May-04
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*12.2%*	*May-04*
Cornerstone Real Est Adv Leveraged	$131,894,751	3.0%	-12.5%	--	-10.4%	--	4.1%	--	--	--	7.2%	Apr-04
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*11.9%*	*Apr-04*
Value Added*	**$33,160,773**	**0.8%**	**-1.5%**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**-1.5%**	**Oct-08**
NCREIF + 2%			*-7.6%*	--	*-4.5%*	--	*10.1%*	--	*13.7%*	--	*-5.2%*	*Oct-08*
UBS Realty Inv LLC Value Added	$10,880,306	0.2%	-3.9%	--	-2.5%	--	--	--	--	--	13.0%	Oct-06
NCREIF + 2%			*-7.6%*	--	*-4.5%*	--	*10.1%*	--	*13.7%*	--	*7.2%*	*Oct-06*
AEW Cap Mgmt Value Added	$9,638,468	0.2%	-1.2%	--	-0.4%	--	--	--	--	--	0.5%	May-07
NCREIF + 2%			*-7.6%*	--	*-4.5%*	--	*10.1%*	--	*13.7%*	--	*3.0%*	*May-07*
Hines Value Added	$12,641,999	0.3%	0.2%	--	-15.3%	--	--	--	--	--	-15.0%	Jul-07
NCREIF + 2%			*-7.6%*	--	*-4.5%*	--	*10.1%*	--	*13.7%*	--	*1.2%*	*Jul-07*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008									
Limited Partnerships*	**$133,456,323**	**3.0%**	**-13.7%**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**-13.7%**	**Oct-08**
NCREIF NFI ODCE			*-10.9%*	--	*-10.0%*	--	*6.7%*	--	*10.8%*	--	*-10.9%*	*Oct-08*
BlackRock Realty Granite Property Fund	$60,465,024	1.4%	-16.8%	--	-16.3%	--	4.9%	--	--	--	6.6%	Nov-05
NCREIF NFI ODCE			*-10.9%*	--	*-10.0%*	--	*6.7%*	--	*10.8%*	--	*7.1%*	*Nov-05*
Cornerstone Real Est Adv Patriot Fund	$72,982,724	1.7%	-10.9%	--	-10.8%	--	6.2%	--	--	--	10.3%	Sep-04
NCREIF NFI ODCE			*-10.9%*	--	*-10.0%*	--	*6.7%*	--	*10.8%*	--	*10.5%*	*Sep-04*
Heitman Advisory JMB V	$8,574	0.0%	0.3%	--	1.9%	--	3.4%	--	16.6%	--	11.8%	Mar-91
NCREIF Property Index			*-8.3%*	--	*-6.5%*	--	*8.1%*	--	*11.7%*	--	*8.3%*	*Mar-91*
REITS*	**$129,577,402**	**3.0%**	**-36.2%**	**30**	**--**	**--**	**--**	**--**	**--**	**--**	**-3.9%**	**Oct-08**
FTSE NAREIT Equity REIT			*-38.8%*	*59*	*-37.7%*	*56*	*-10.8%*	*55*	*0.9%*	*75*	*-10.4%*	*Oct-08*
Mercer Instl US Real Estate Public REITS Median			*-38.3%*		*-37.1%*		*-10.6%*		*2.0%*		*--*	*Oct-08*
Principal Global Investors	$33,310,199	0.8%	-34.1%	25	-32.4%	19	--	--	--	--	-11.5%	Feb-06
FTSE NAREIT Equity REIT			*-38.8%*	*59*	*-37.7%*	*56*	*-10.8%*	*55*	*0.9%*	*75*	*-14.1%*	*Feb-06*
Mercer Instl US Real Estate Public REITS Median			*-38.3%*		*-37.1%*		*-10.6%*		*2.0%*		*--*	*Feb-06*
Urdang Investment Mgmt. Inc.	$32,806,857	0.7%	-37.1%	36	-34.9%	33	--	--	--	--	-12.0%	Feb-06
FTSE NAREIT Equity REIT			*-38.8%*	*59*	*-37.7%*	*56*	*-10.8%*	*55*	*0.9%*	*75*	*-14.1%*	*Feb-06*
Mercer Instl US Real Estate Public REITS Median			*-38.3%*		*-37.1%*		*-10.6%*		*2.0%*		*--*	*Feb-06*
CB Richard Ellis Global	$63,460,346	1.4%	--	--	--	--	--	--	--	--	3.7%	Oct-08
Mercer Instl Global Real Estate Securities Median			*-30.6%*		*-46.6%*		*-10.9%*		*2.1%*		*--*	*Oct-08*
Private Equity	**$111,397,615**	**2.5%**	**-28.0%**	**--**	**-29.6%**	**--**	**--**	**--**	**--**	**--**	**-29.6%**	**Dec-07**
HarbourVest	$15,531,827	0.4%	-6.5%	--	-3.6%	--	--	--	--	--	-3.6%	Dec-07
S&P 500 + 2%			*-21.1%*	--	*-35.0%*	--	*-6.3%*	--	*-0.1%*	--	*-35.0%*	*Dec-07*
Goldman Sachs & Company	$1,619,117	0.0%	0.0%	--	--	--	--	--	--	--	0.9%	Jun-08
S&P 500 + 2%			*-21.1%*	--	*-35.0%*	--	*-6.3%*	--	*-0.1%*	--	*-27.1%*	*Jun-08*
Abbott Capital Management	$2,419,980	0.1%	-7.8%	--	--	--	--	--	--	--	-7.8%	Jul-08
S&P 500 + 2%			*-21.1%*	--	*-35.0%*	--	*-6.3%*	--	*-0.1%*	--	*-26.6%*	*Jul-08*
State Street Global Advisors Russell 2000 Swap	$91,826,691	2.1%	-29.2%	--	--	--	--	--	--	--	-31.2%	Feb-08
Russell 2000			*-26.1%*	--	*-33.8%*	--	*-8.3%*	--	*-0.9%*	--	*-26.2%*	*Feb-08*

Total Plan

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
			Ending December 31, 2008								Inception	
Opportunistic	**$154,091,335**	**3.5%**	**-31.8%**	**--**	**-34.3%**	**--**	**--**	**--**	**--**	**--**	**-30.2%**	**Oct-07**
PIMCO Advisors Inst Services Distressed Mortgage Fund	$17,811,852	0.4%	-24.5%	--	-37.3%	--	--	--	--	--	-33.0%	Oct-07
European Credit Management	$33,885,875	0.8%	-20.5%	--	--	--	--	--	--	--	-31.7%	Jan-08
Barclays Capital Aggregate			*4.6%*	--	*5.2%*	--	*5.5%*	--	*4.7%*	--	*3.5%*	*Jan-08*
State Street Global Advisors Real Asset Strategy	$22,825,257	0.5%	-35.6%	--	--	--	--	--	--	--	-39.6%	Feb-08
*Blended Benchmark**			*-36.7%*	--	--	--	--	--	--	--	*-38.4%*	*Feb-08*
Commodities	**$79,568,352**	**1.8%**	**-28.3%**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**-38.6%**	**Apr-08**
Lehman Brothers Asset Mgmt	$32,423,736	0.7%	-35.6%	--	--	--	--	--	--	--	-47.7%	Apr-08
Goldman Sachs Commodity Index (GSCITR)			*-47.0%*	--	*-46.5%*	--	*-15.5%*	--	*-2.4%*	--	*-54.9%*	*Apr-08*
Blackstone Alternatives Asset	$47,144,616	1.1%	-21.7%	--	--	--	--	--	--	--	-26.9%	Apr-08
Goldman Sachs Commodity Index (GSCITR)			*-47.0%*	--	*-46.5%*	--	*-15.5%*	--	*-2.4%*	--	*-54.9%*	*Apr-08*
Total Cash	**$59,812,953**	**1.4%**	**0.4%**	**89**	**0.1%**	**94**	**3.5%**	**92**	**3.4%**	**78**	**4.6%**	**Jun-92**
Citigroup 3mth Treasury Bill			*0.3%*	*89*	*1.8%*	*83*	*3.8%*	*88*	*3.1%*	*89*	*3.8%*	*Jun-92*
Mercer Instl US Short Term Inv Funds Median			*0.7%*		*2.8%*		*4.5%*		*3.6%*		*4.4%*	*Jun-92*
Cash	$59,812,953	1.4%	0.4%	--	1.7%	--	4.0%	--	3.7%	--	4.7%	Jun-92
Citigroup 3mth Treasury Bill			*0.3%*	--	*1.8%*	--	*3.8%*	--	*3.1%*	--	*3.8%*	*Jun-92*

*One or more accounts have been excluded from the composite for the purposes of performance calculations and market value.

*Blended Benchmark: 30% DJ Wilshire REIT, 50% S&P GSCI, 20% BarCap TIPS

Total Plan - Net

Performance Summary

Total Plan Performance

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008								Inception	
Total Fund*	**$4,387,273,379**	**100.0%**	**-16.6%**	**91**	**-27.9%**	**70**	**-3.6%**	**71**	**1.6%**	**69**	**7.7%**	**Jun-86**
Total Benchmark			*-15.2%*	*67*	*-25.8%*	*34*	*-2.3%*	*30*	*2.7%*	*36*	*8.2%*	*Jun-86*
Public Funds >$1B Median			*-14.1%*		*-26.8%*		*-2.9%*		*2.3%*		*--*	*Jun-86*
Total Fund without SSGA Overlay			-15.7%	--	-27.5%	--	--	--	--	--	-4.8%	Feb-06
Total Fund with SSGA Overlay			-16.6%	--	-28.2%	--	--	--	--	--	-5.2%	Feb-06
Total Domestic	**$1,193,028,952**	**27.2%**	**-23.4%**	**66**	**-38.9%**	**76**	**-10.0%**	**87**	**-3.1%**	**83**	**8.2%**	**Jun-86**
Russell 3000			*-22.8%*	*44*	*-37.3%*	*45*	*-8.6%*	*46*	*-1.9%*	*43*	*8.1%*	*Jun-86*
Public Funds >$1B - US Eq Median			*-23.1%*		*-37.4%*		*-8.7%*		*-2.1%*		*--*	*Jun-86*
Total Large Cap	**$974,456,986**	**22.2%**	**-23.3%**	**69**	**-39.6%**	**73**	**-10.0%**	**80**	**-3.0%**	**84**	**-0.8%**	**Mar-98**
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*0.0%*	*Mar-98*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*1.8%*	*Mar-98*
Large Cap Core Index	**$429,737,912**	**9.8%**	**-22.4%**	**57**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.1%**	**Oct-08**
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*--*	*Oct-08*
AllianceBernstein L.P. Passive	$429,737,912	9.8%	-22.4%	57	-37.5%	57	-8.6%	63	-2.0%	71	8.0%	Mar-89
Russell 1000			*-22.5%*	*58*	*-37.6%*	*57*	*-8.7%*	*63*	*-2.0%*	*71*	*8.2%*	*Mar-89*
Mercer Instl US Equity Large Cap Median			*-21.9%*		*-36.9%*		*-7.9%*		*-1.0%*		*9.3%*	*Mar-89*
Enhanced Large Cap Core Index	**$124,883,848**	**2.8%**	**-22.1%**	**57**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.0%**	**Oct-08**
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Oct-08*
Westridge	$63,810,870	1.5%	-22.1%	55	--	--	--	--	--	--	-29.1%	Jun-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-29.7%*	*Jun-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*-29.3%*	*Jun-08*

Total Plan - Net

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Return	Since
			Ending December 31, 2008								Inception	
BlackRock Financial Mgmt	$61,072,978	1.4%	-22.2%	58	--	--	--	--	--	--	-28.5%	Jul-08
S&P 500 Index (Total Return)			*-21.9%*	*53*	*-37.0%*	*55*	*-8.4%*	*61*	*-2.2%*	*78*	*-27.9%*	*Jul-08*
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Equity Active Extension (130/30)	**$124,938,386**	**2.8%**	**-23.2%**	**73**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.5%**	**Oct-08**
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Oct-08*
JPMorgan Asset Management	$42,393,666	1.0%	-20.3%	23	--	--	--	--	--	--	-26.0%	Jul-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
UBS Global Asset Management	$40,505,752	0.9%	-27.5%	99	--	--	--	--	--	--	-32.1%	Jul-08
Russell 1000			*-22.5%*	*63*	*-37.6%*	*62*	*-8.7%*	*66*	*-2.0%*	*76*	*-28.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Barclays Global Inv	$42,038,968	1.0%	-21.5%	42	--	--	--	--	--	--	-30.0%	Jul-08
S&P 500 Index (Total Return)			*-21.9%*	*53*	*-37.0%*	*55*	*-8.4%*	*61*	*-2.2%*	*78*	*-27.9%*	*Jul-08*
Mercer Instl US Equity Large Cap Core Median			*-21.8%*		*-36.8%*		*-7.9%*		*-1.1%*		*--*	*Jul-08*
Large Cap Growth	**$159,518,506**	**3.6%**	**-25.7%**	**84**	**--**	**--**	**--**	**--**	**--**	**--**	**-9.2%**	**Oct-08**
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-6.3%*	*Oct-08*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Oct-08*
Wells Capital Management	$77,328,241	1.8%	-26.5%	89	--	--	--	--	--	--	-42.7%	Apr-08
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-34.9%*	*Apr-08*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Apr-08*
Intech	$82,190,265	1.9%	-24.9%	79	-42.4%	77	--	--	--	--	-17.6%	Oct-06
Russell 1000 Growth			*-22.8%*	*53*	*-38.4%*	*45*	*-9.1%*	*60*	*-3.4%*	*80*	*-14.9%*	*Oct-06*
Mercer Instl US Equity Large Cap Growth Median			*-22.6%*		*-39.0%*		*-8.4%*		*-1.8%*		*--*	*Oct-06*
Large Cap Value	**$135,378,334**	**3.1%**	**-24.3%**	**81**	**--**	**--**	**--**	**--**	**--**	**--**	**-6.0%**	**Oct-08**
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-5.9%*	*Oct-08*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-08*

Total Plan - Net

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008								Inception	
LSV Asset Management Large Cap Value	$69,806,909	1.6%	-23.4%	72	-41.3%	87	-10.2%	82	--	--	-2.6%	Oct-04
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-2.6%*	*Oct-04*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-04*
Pzena Investment Management	$65,571,425	1.5%	-25.3%	86	-44.9%	94	-17.3%	98	--	--	-8.3%	Oct-04
Russell 1000 Value			*-22.2%*	*58*	*-36.8%*	*60*	*-8.3%*	*62*	*-0.8%*	*63*	*-2.6%*	*Oct-04*
Mercer Instl US Equity Large Cap Value Median			*-21.6%*		*-35.7%*		*-7.4%*		*-0.2%*		*--*	*Oct-04*
Total Small Cap	**$218,571,966**	**5.0%**	**-23.6%**	**24**	**-35.7%**	**46**	**-10.4%**	**65**	**-3.9%**	**86**	**10.0%**	**Dec-90**
Russell 2000			*-26.1%*	*53*	*-33.8%*	*36*	*-8.3%*	*44*	*-0.9%*	*58*	*9.2%*	*Dec-90*
Mercer Instl US Equity Small Cap Median			*-25.9%*		*-36.8%*		*-9.0%*		*-0.4%*		*11.8%*	*Dec-90*
Small Cap Growth	**$86,619,407**	**2.0%**	**-24.3%**	**22**	**--**	**--**	**--**	**--**	**--**	**--**	**-5.1%**	**Oct-08**
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*-7.3%*	*Oct-08*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*--*	*Oct-08*
O'Shaughnessy Asset Management	$29,529,419	0.7%	-27.0%	60	-48.5%	90	--	--	--	--	-26.3%	Jul-06
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*-11.6%*	*Jul-06*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*--*	*Jul-06*
M.A. Weatherbie	$57,089,987	1.3%	-22.9%	14	-38.1%	23	-8.8%	45	-1.8%	46	3.1%	Dec-02
Russell 2000 Growth			*-27.4%*	*64*	*-38.5%*	*28*	*-9.3%*	*49*	*-2.4%*	*54*	*4.7%*	*Dec-02*
Mercer Instl US Equity Small Cap Growth Median			*-26.4%*		*-41.6%*		*-9.4%*		*-2.2%*		*4.9%*	*Dec-02*
Small Cap Value	**$131,952,559**	**3.0%**	**-23.0%**	**28**	**--**	**--**	**--**	**--**	**--**	**--**	**-4.4%**	**Oct-08**
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-6.1%*	*Oct-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Oct-08*
Dalton Greiner Hartman Maher	$58,807,660	1.3%	-22.2%	20	-24.4%	8	-3.8%	14	2.6%	31	6.3%	Dec-00
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*5.2%*	*Dec-00*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*6.3%*	*Dec-00*
Wedge Capital Management	$37,429,722	0.9%	-23.1%	29	--	--	--	--	--	--	-27.7%	Apr-08
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-26.3%*	*Apr-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Apr-08*

Total Plan - Net

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Since
			Ending December 31, 2008									
Thompson, Siegel & Walmsley	$35,715,177	0.8%	-24.3%	43	--	--	--	--	--	--	-28.5%	Apr-08
Russell 2000 Value			*-24.9%*	*52*	*-28.9%*	*30*	*-7.5%*	*49*	*0.3%*	*59*	*-26.3%*	*Apr-08*
Mercer Instl US Equity Small Cap Value Median			*-24.7%*		*-32.2%*		*-7.6%*		*0.6%*		*--*	*Apr-08*
Total International Equity	**$735,513,061**	**16.8%**	**-22.0%**	**63**	**-44.8%**	**48**	**-6.8%**	**62**	**2.7%**	**45**	**5.0%**	**Dec-87**
MSCI EAFE			*-20.0%*	*16*	*-43.4%*	*24*	*-7.4%*	*73*	*1.7%*	*92*	*4.2%*	*Dec-87*
Public Funds >$1B - Non-US Eq Median			*-21.4%*		*-44.9%*		*-6.7%*		*2.7%*		*5.7%*	*Dec-87*
Total International Equity-Established Markets	**$568,705,739**	**13.0%**	**-21.0%**	**58**	**-43.2%**	**51**	**-8.2%**	**79**	**0.8%**	**89**	**0.4%**	**Mar-98**
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*1.2%*	*Mar-98*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*3.3%*	*Mar-98*
INVESCO	$192,667,475	4.4%	-18.6%	30	-40.0%	26	-6.3%	54	--	--	-2.3%	Mar-05
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-2.6%*	*Mar-05*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*-1.0%*	*Mar-05*
Capital Guardian Trust Company International Equity	$173,478,592	4.0%	-18.8%	31	-42.6%	45	-7.7%	72	1.3%	84	-2.1%	Dec-99
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-1.8%*	*Dec-99*
MSCI EAFE Growth			*-20.1%*	*44*	*-42.7%*	*47*	*-6.5%*	*56*	*1.4%*	*82*	*-4.2%*	*Dec-99*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*0.2%*	*Dec-99*
LSV Asset Management International Equity	$135,783,311	3.1%	-23.3%	78	-47.0%	80	-10.6%	96	--	--	-4.7%	Dec-04
MSCI EAFE			*-20.0%*	*43*	*-43.4%*	*53*	*-7.4%*	*67*	*1.7%*	*77*	*-2.5%*	*Dec-04*
MSCI EAFE Value			*-19.8%*	*41*	*-44.1%*	*60*	*-8.2%*	*80*	*1.8%*	*75*	*-3.2%*	*Dec-04*
Mercer Instl Intl Equity Median			*-20.3%*		*-43.1%*		*-6.1%*		*3.0%*		*-1.1%*	*Dec-04*
AXA Rosenberg Inv. Mgmt. LLC	$26,663,159	0.6%	-25.9%	80	-48.1%	46	-12.2%	81	--	--	-6.0%	Feb-05
MSCI Small Cap World ex US			*-23.6%*	*60*	*-48.1%*	*46*	*-13.7%*	*90*	*0.8%*	*83*	*-7.0%*	*Feb-05*
S&P Developed SmallCap ex US			*-23.8%*	*61*	*-47.7%*	*44*	*-10.1%*	*60*	*2.7%*	*77*	*-4.5%*	*Feb-05*
Mercer Instl Intl Equity Small Cap Median			*-22.7%*		*-48.5%*		*-9.6%*		*4.3%*		*--*	*Feb-05*

Total Plan - Net

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008									
William Blair	$40,113,202	0.9%	-29.3%	96	--	--	--	--	--	--	-29.3%	Sep-08
MSCI Small Cap World ex US			*-23.6%*	*60*	*-48.1%*	*46*	*-13.7%*	*90*	*0.8%*	*83*	*-23.6%*	*Sep-08*
Mercer Instl Intl Equity Small Cap Median			*-22.7%*		*-48.5%*		*-9.6%*		*4.3%*		*-22.7%*	*Sep-08*
Total International Equity-Emerging Markets	**$166,805,349**	**3.8%**	**-25.4%**	**20**	**-49.6%**	**21**	**-1.6%**	**21**	**9.7%**	**34**	**4.1%**	**Jan-00**
MSCI EM (Emerging Markets)			*-27.6%*	*37*	*-53.3%*	*41*	*-4.9%*	*58*	*7.7%*	*67*	*4.0%*	*Jan-00*
Mercer Instl Emerging Markets Equity Median			*-28.7%*		*-54.1%*		*-4.6%*		*8.5%*		*--*	*Jan-00*
Capital Guardian Trust Company Emerging Markets Growth	$166,805,349	3.8%	-25.4%	20	-49.6%	21	-1.6%	21	9.7%	34	4.1%	Jan-00
MSCI Emerging Markets Investable Market Index			*-27.4%*	*37*	*-50.1%*	*22*	*-4.9%*	*58*	*6.3%*	*89*	*4.5%*	*Jan-00*
Mercer Instl Emerging Markets Equity Median			*-28.7%*		*-54.1%*		*-4.6%*		*8.5%*		*--*	*Jan-00*
Total Domestic Fixed Income	**$1,029,283,125**	**23.5%**	**1.1%**	**35**	**-0.2%**	**34**	**3.6%**	**35**	**3.6%**	**38**	**7.5%**	**Jun-86**
Barclays Capital Aggregate			*4.6%*	*6*	*5.2%*	*5*	*5.5%*	*6*	*4.7%*	*8*	*7.3%*	*Jun-86*
Public Funds >$1B - US FI Median			*-0.5%*		*-4.1%*		*2.1%*		*3.2%*		*--*	*Jun-86*
Lehman Brothers Asset Mgmt	$350,220,964	8.0%	2.8%	46	1.7%	52	4.1%	52	3.8%	50	7.3%	May-88
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*7.5%*	*May-88*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*--*	*May-88*
Metropolitan West Asset Mgmt	$327,743,656	7.5%	-2.9%	78	-5.6%	76	2.3%	71	2.9%	69	4.1%	Dec-01
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*5.4%*	*Dec-01*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*4.8%*	*Dec-01*
Bradford & Marzec, Inc	$351,318,505	8.0%	3.1%	41	3.2%	43	4.3%	49	4.1%	44	7.9%	Jun-88
Barclays Capital Aggregate			*4.6%*	*27*	*5.2%*	*28*	*5.5%*	*29*	*4.7%*	*25*	*7.4%*	*Jun-88*
Mercer Instl US Fixed Combined Median			*2.2%*		*1.8%*		*4.2%*		*3.8%*		*7.2%*	*Jun-88*
Total Hedge Fund	**$245,460,498**	**5.6%**	**-7.7%**	**--**	**-22.4%**	**--**	**-1.9%**	**--**	**--**	**--**	**2.6%**	**Aug-04**
T-BILLS + 5%			*1.4%*	*--*	*6.7%*	*--*	*8.6%*	*--*	*8.0%*	*--*	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	*--*	*-19.8%*	*--*	*1.4%*	*--*	*5.0%*	*--*	*5.4%*	*Aug-04*
Blackstone Alternative Asset	$121,404,258	2.8%	-9.6%	--	-24.1%	--	-2.6%	--	--	--	2.8%	Aug-04
T-BILLS + 5%			*1.4%*	*--*	*6.7%*	*--*	*8.6%*	*--*	*8.0%*	*--*	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	*--*	*-19.8%*	*--*	*1.4%*	*--*	*5.0%*	*--*	*5.4%*	*Aug-04*

Total Plan - Net

Performance Summary

Name	Current Market Value	Current Allocation	3 Mo	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	Inception Return	Inception Since
			Ending December 31, 2008									
Grosvenor Capital Mgmt.	$124,056,240	2.8%	-5.7%	--	-20.7%	--	-1.3%	--	--	--	2.2%	Aug-04
T-BILLS + 5%			*1.4%*	--	*6.7%*	--	*8.6%*	--	*8.0%*	--	*8.3%*	*Aug-04*
CS Tremont Hedge Funds Long/Short Equity Index			*-7.5%*	--	*-19.8%*	--	*1.4%*	--	*5.0%*	--	*5.4%*	*Aug-04*

Report Notes

1. Total Fund, Total Domestic Equity and Total Fixed Income inception data is from 7/86.

2. The Total Fund assets and return are calculated using the real estate leveraged assets and performance. Prior to the second quarter of 2006, real estate unleveraged assets were reported in the Total Fund assets.

3. The Russell/Mellon Trust Total Funds Billion Dollar–Public Universe indicates assets of public funds with a billion dollars or more.

4. The Total Fund's Benchmark (ALM Benchmark) consists of 30% Russell 3000, 20% ACWI ex US, 20% Lehman Brothers Aggregate, 12% NCREIF Property, 3% NAREIT, 5% T-Bill plus 5%, 5% Dow Jones AIG Commodities Total Return Index and 5% S&P 500 plus 2% (for private equity).
   - From 2/1/06 to 12/31/07 the Benchmark consisted of 30% Russell 1000 Index, 5% Russell 2000 Index, 25% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE Index, 5% MSCI Emerging Markets Free Index, 12% NCREIF Property Index, 3% NAREIT Index and 5% T-Bill plus 5%.
   - From 9/1/04 to 1/31/06 the Benchmark consisted of 30% Russell 1000 Index, 5% Russell 2000 Index, 25% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE Index, 5% MSCI Emerging Markets Free Index, 15% NCREIF Property Index and 5% T-Bill plus 5%.
   - From 1/1/00 to 8/31/04 the Benchmark consisted of 35% Russell 1000 Index, 5% Russell 2000 Index, 30% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE Index, 5% MSCI Emerging Markets Free Index, and 10% NCREIF Property Index.
   - Prior to 1Q00, the Benchmark consisted of 47% Russell 3000, 23% Salomon Smith Barney Broad Investment Grade Bond, 15% MSCI EAFE, and 15% NCREIF.
   - Historic returns link the old and the new benchmarks together.

5. The Total Large Cap Domestic Equity inception data is from April 1, 1998. Actual inception date is earlier.

6. Alliance Capital (All Cap Index) inception date is April 19, 1989. The portfolio's assets transitioned to the Russell 1000 strategy from the Russell 3000 strategy at the end of year 2000.

7. Alliance (All Cap Index) benchmark is the Russell 1000.
   - From 1/1/98 to 12/31/00, the index was the Russell 3000.
   - Prior to 1/1/98, the index was the Wilshire 2500 Index.
   - Historic returns link the old and the new benchmarks together.

8. The Independence inception date is June 3, 1998. Independence was terminated in April 2008.

9. The OFI Institutional Asset Management (Trinity) inception date is from January 1, 1997. Actual inception date is December 20, 1996. Terminated during the fourth quarter of 2007.

10. The Total Small Cap Domestic Equity inception data is from January 1991.

11. M. A. Weatherbie & Company inception data is from January 1, 2003. Actual inception is December 6, 2002.

12. Dalton inception data is from January 1, 2001. Actual inception date is December 15, 2000.

13. TCW inception data is from January 1, 2001. Actual inception date is December 19, 2000. TCW was terminated in April 2008.

14. Total International Equity inception data is from January 1988.

15. Total International Equity–Established Markets inception data is from April 1, 1998. Actual inception date is earlier.

16. The Total International Equity Emerging Markets and Capital Guardian Emerging Markets inception date is January 31, 2000.

17. Lehman Brothers Asset Management (formerly Lincoln Capital) and Bradford & Marzec inception data is from July 1988.

18. Lehman Brothers passive fixed income fund was converted to the enhanced index fund in January 2008.

19. Bradford's benchmark is the Lehman Brothers Aggregate Bond Index.
    - Prior to 10/1/98, the benchmark was the SSB Broad Investment Grade Bond Index.
    - Historic returns link the old and the new benchmarks together.

20. Metropolitan inception date is January 1, 2002.

21. The Total Real Estate inception data is from October 1987. Beginning 1st quarter of 1999, the BlackRock Realty (formerly SSR Realty Advisors) leveraged return was used in the Total Real Estate return calculation. For 4Q02, 1Q03, 2Q03, 2Q04, 3Q04 and 4Q04, BlackRock Realty's AIMR returns were used in the Total Real Estate calculation because of the existence of an Escrow Account. Net asset values were used in the above periods instead of the portfolio's leveraged assets. BlackRock Realty's returns and market values (including Portfolio II) shown in the report were provided by the investment manager.

22. The Total Cash inception date is July 1, 1992.

23. State Street Bank is the current custodian.

24. Cornerstone Advisers was funded May 27, 2004. Performance tracking began June 1, 2004. Cornerstone Advisers' returns and market values (separate account and open-end fund) shown in the report were provided by the investment manager.

25. Blackstone Alternative Asset and Grosvenor Capital Management were funded on September 1, 2004.

26. LSV Asset Management Large Cap Value Equity and Pzena Investment Management were funded on November 1, 2004.

27. LSV Asset Management International Value Equity was funded in December 2004.

28. Axa Rosenberg was funded in February 2005; inception data is from March 1, 2005.

29. INVESCO was funded in March 2005; inception data is from April 1, 2005.

30. The Total Fund's Current Benchmark tracks the current allocation of the Fund. The benchmark allocation excludes the SSgA Overlay Account, private equity and opportunistic investments in the fourth quarter of 2007 and first quarter of 2008.

31. BlackRock Realty Tower Fund was funded in August 2005. Effective 10/1/06, the fund switched from the Tower Fund (subadvised by MetLife) to a private REIT fund named Granite Property Fund, managed in-house. Quarterly returns and balances since the fourth quarter of 2005 (inception) have been revised with data provided by BlackRock.

32. Principal Global Investors and Urdang Securities Management were funded February 1, 2006 to manage a REIT portfolio.

33. SSgA Futures Overlay was funded February 9, 2006.

34. Bear Stearns was funded July 6, 2006. Performance tracking began August 1, 2006. Bear Stearns was renamed to O'Shaughnessy Asset Management after the sub-advisor relationship between Bear Stearns and O'Shaughnessy was terminated. SCERS retained O'Shaughnessy to manage their small cap growth strategy.

35. INTECH, a large cap growth manager hired to complement Independence, was funded October 2, 2006.

36. UBS Realty Investors (Allegis Value Trust), a value-added real estate manager, was funded October 2, 2006.

37. AEW Capital Management, a value-added real estate manager, was funded during the second quarter of 2007.

38. Hines, a value-added real estate manager, was funded August 20, 2007. Performance tracking began September 1, 2007.

39. HarbourVest was funded December 21, 2007. Performance tracking began January 1, 2008.

40. PIMCO Distressed Management Fund was funded October 31, 2007. Performance tracking began November 1, 2007.

41. European Credit Management – CorePlus (ECL Alpha) Fund was funded in January 2008 as part of the opportunistic allocation.

42. SSgA Russell 2000 SWAPs strategy was funded in February 2008 to hold committed assets for private equity.

43. SSgA Real Asset Strategy was funded in February 2008 to hold committed assets for the opportunistic allocation. The benchmark is a blend of the following: 30% DJ Wilshire REIT, 50% S&P GSCI, and 20% Lehman Brothers US TIPS.

44. Goldman Sachs Private Equity X was funded in June 2008 as part of the private equity allocation.

45. SSgA REIT was funded in April 2008 as part of the Real Estate allocation.

46. Blackstone Alternative Asset Management and Lehman Brothers Asset Management were funded in April 2008 as part of the commodities (opportunistic) allocation. Performance for these funds began May 1, 2008.

47. Westridge Management, an enhanced large cap core equity index manager, was funded in June 2008. Performance tracking began July 1, 2008.

48. Wells Capital Management was funded in April 2008 to replace Independence in the large cap growth asset class. Performance tracking began May 1, 2008.

49. Thompson Siegal & Walmsley was funded in April 2008 to manage a small cap value portfolio. Performance tracking began May 1, 2008.

50. Wedge Capital Management was funded in April 2008 to manage a small cap value portfolio. Performance tracking began May 1, 2008.

51. BlackRock Financial, an enhanced large cap core equity index manager, was funded in July 2008. Performance tracking began August 1, 2008.

52. JP Morgan Asset Management, a large cap equity active extension (130/30) manager, was funded in July 2008. Performance tracking began August 1, 2008.

53. UBS Global Asset Management, a large cap equity active extension (130/30) manager, was funded in July 2008. Performance tracking began August 1, 2008.

54. Barclays Global Investors, a large cap equity active extension (130/30) manager, was funded in July 2008. Performance tracking began August 1, 2008.

55. William Blair & Company, a small cap international equity manager, was funded on September 17, 2008. Performance tracking began October 1, 2008.

56. Abbott Capital Management, a private equity manager, was funded in July 2008. Performance tracking began August 1, 2008.

57. CB Richard Ellis, a global REIT manager, was funded in October 2008. Performance tracking began November 1, 2008.

Disclaimer

Important Information, Datasource Acknowledgements and Disclaimers

Investment advisory services provided by Mercer Investment Consulting, Inc.

Returns for periods greater than one year are annualized. Returns are calculated [gross][net] of investment management fees, unless noted.

Style analysis graph time periods may differ reflecting the length of performance history available.

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