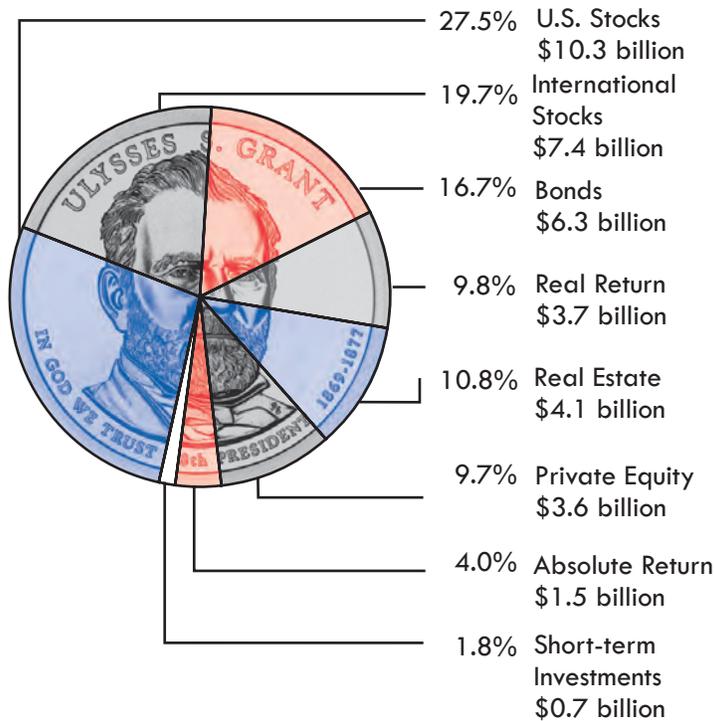
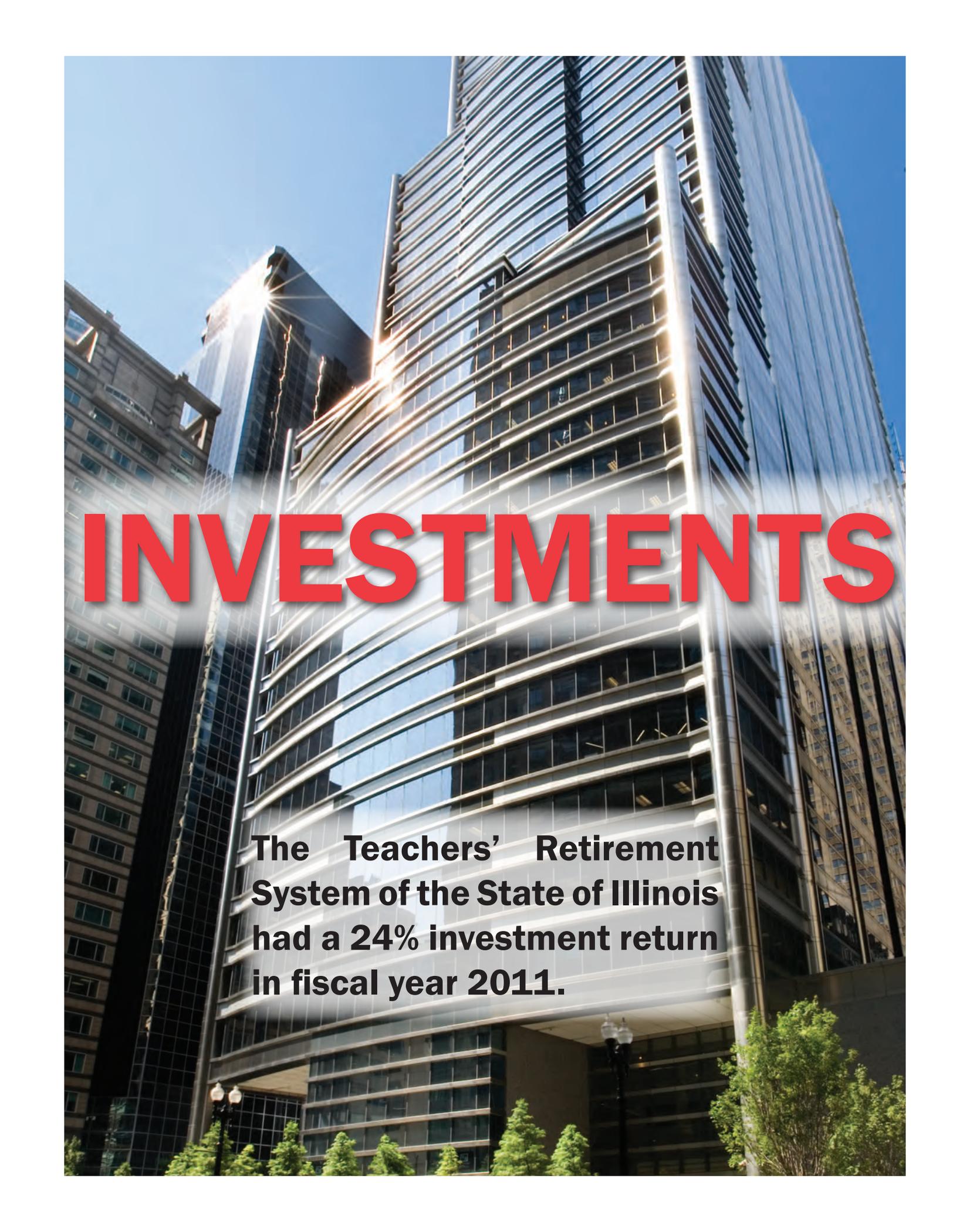


Teachers' Retirement System recorded positive returns in all eight classes of investment assets with a total rate of return for fiscal year 2011 of 23.6 percent. The TRS target rate of return was 8.5 percent.

FISCAL YEAR 2011 ASSET ALLOCATION





INVESTMENTS

The Teachers' Retirement System of the State of Illinois had a 24% investment return in fiscal year 2011.

INTRODUCTION

Global financial markets remained strong through the fiscal year ended June 30, 2011 as improved economic fundamentals and generally reduced risk aversion provided a favorable investment environment. Investors were largely more optimistic during the year, focusing on low global stock and bond market valuations, and global stimulus measures continued across developed countries. However, despite the strong gains for the year, investors remained mindful of the persistent economic challenges from the recent recession and credit crisis, including high unemployment and weakness in the housing market. Through the year, public equity returns outpaced all other markets with United States stocks up 32.4 percent and international stocks rising 30.3 percent.

Within this environment, the TRS investment portfolio posted a strong year, returning 24.3 percent, gross of fees, for the fiscal year ended June 30, 2011. Total TRS investments increased by approximately \$6.3 billion during the year, representing the seventh year of the past nine in which portfolio assets have increased.

The TRS portfolio remains fully diversified across different asset classes. A number of investment managers are utilized within each asset class to ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile global markets.

The TRS trust fund is invested by authority of the Illinois Pension Code under the “prudent person rule,” requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS’s investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

As master trustee, State Street Bank and Trust has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2010 through June 30, 2011. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2011.

Investment performance is calculated using a time-weighted rate of return. Returns are calculated by State Street Bank and Trust using industry best practices. Additionally, State Street Bank and Trust calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of its custodian, prepared the Investments section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2011

Total Fund Market Value	\$37.7 billion
1-Year Return (net of fees)	23.6%
5-Year Return (net of fees)	4.1%
10-Year Return (net of fees)	6.0%
Percent externally managed	100.0%
Number of external managers	146
Custodian	State Street Bank and Trust
General consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 39th out of the top 1,000 U.S. pension funds/plan sponsors according to *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2010.

FUND PERFORMANCE VS. BENCHMARKS AND MARKET VALUES

As of June 30, 2011, TRS's total investments at market value totaled \$37.7 billion, an increase of \$6.3 billion from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the Statements of Plan Assets located on page 24.

TRS had a total fund annualized return of 24.3 percent, gross of fees, and 23.6 percent, net of fees, for the one-year period ended June 30, 2011. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance surpassed the policy index by 2.1 percentage points for the year ended June 30, 2011. The policy index represents a weighted average of each asset class benchmark, based on the total fund's interim target asset allocation. The total return also surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percentage points.

Performance Summary (net of fees)

Asset Class / Index	Years ended June 30					Annualized at 6/30/11		
	2011	2010	2009	2008	2007	3 Years	5 Years	10 Years
TRS Total Fund	23.6%	12.9%	(22.7)%	(5.0)%	19.2%	2.6%	4.1%	6.0%
TRS Weighted Policy Index	21.5	10.9	(18.6)	(4.1)	17.9	3.1	4.4	5.8
CPI (Inflation)	3.6	1.1	(1.4)	5.0	2.7	1.0	2.2	2.4
TRS Equity - U.S.	32.9	17.0	(27.3)	(15.1)	19.4	4.2	2.7	3.5
Russell 3000 Index	32.4	15.7	(26.6)	(12.7)	20.1	4.0	3.4	3.4
TRS Equity - International	30.3	11.3	(31.9)	(7.7)	29.6	(0.4)	3.4	7.5
Non-U.S. Equity Index	30.3	11.5	(30.5)	(6.2)	30.2	0.3	4.3	8.0
TRS Fixed Income	8.9	16.8	4.9	5.1	5.9	10.1	8.2	6.9
TRS Fixed Income Index	3.9	9.5	6.1	7.1	6.1	6.5	6.5	6.0
TRS Real Estate	17.8	(5.6)	(30.0)	4.5	25.3	(8.0)	0.4	6.2
Real Estate Property Index	16.7	(1.5)	(19.6)	9.2	17.2	(2.6)	3.4	7.6
TRS Private Equity	22.3	16.5	(17.9)	3.3	29.3	5.4	9.3	7.1
Russell 3000 Index +3.0%*	36.2	19.2	(24.3)	(10.0)	23.7	7.1	6.5	6.6
TRS Real Return	23.4	13.5	(26.2)	20.5	-	1.1	-	-
CPI (Inflation) +5.0%*	8.7	6.1	3.5	10.3	-	6.1	-	-
TRS Absolute Return	12.4	9.6	(13.9)	0.9	-	2.0	-	-
90-day Treasury Bill +4.0%*	4.2	4.2	5.0	7.8	-	4.4	-	-

* Index compounded monthly.

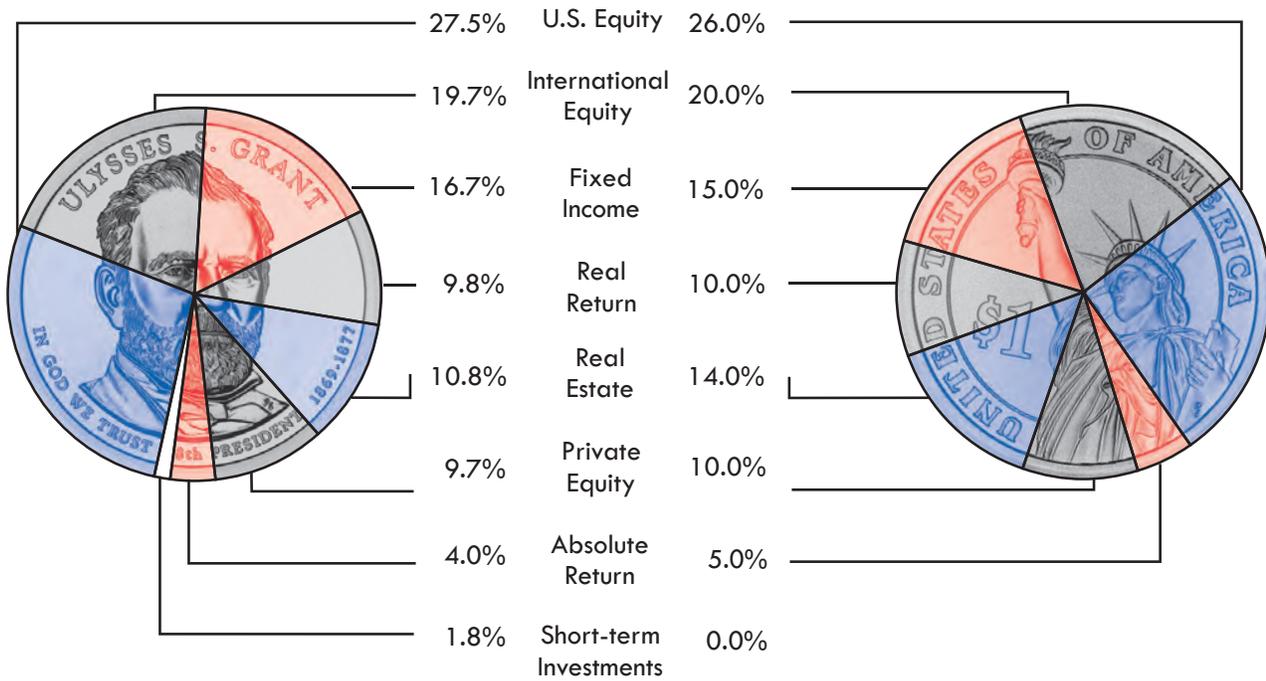
Note: Time-weighted rates of return based on the market rate of return are provided by State Street Bank and Trust.

ASSET ALLOCATION VS. TARGETS

A pension fund's most important investment policy decision is the selection of its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY11 Asset Allocation

Long-term Target Allocation



Through the fiscal year, TRS continued implementation of the asset allocation study adopted in May 2009. That study focused primarily on additional funding to the retirement system's newer asset classes, real return and absolute return. In FY11, TRS was successful in allocating these classes toward their 10 percent and 5 percent respective targets. Funding for the increases came largely from the strength of the global public equity markets and the retirement system's ability to effectively rebalance from those classes during the year.

TRS also conducted a new asset allocation study within the fiscal year, with revised targets adopted by the Board of Trustees in April 2011. Implementation of the new targets will begin in FY12 and include a continued evolution of the fund's diversification into the absolute return and private equity asset classes (to 8 percent and 12 percent of fund respectively), as well as a slight increase to fixed income investments (to 16 percent of fund). These increases are focused on controlling the overall volatility of the investment portfolio within an uncertain economic landscape. Balancing the allocation increases is a corresponding decrease to U.S. equity (to 20 percent of fund).

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are necessary. The following Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees, compared to the total assets assigned to each particular asset class at June 30, 2011.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/2011 Total Fund \$ Million	FY11			FY10	
		Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. equities	\$10,290	27.5%	28.0%	26.0%	28.6%	26.0%
International equities	7,356	19.7	20.0	20.0	19.3	20.0
Fixed income	6,261	16.7	17.0	15.0	17.7	15.0
Real return	3,676	9.8	10.0	10.0	9.9	10.0
Real estate	4,054	10.8	12.0	14.0	10.4	14.0
Private equity	3,624	9.7	8.0	10.0	9.5	10.0
Absolute return	1,486	4.0	3.8	5.0	3.9	5.0
Short-term investments	657	1.8	1.2	0.0	0.7	0.0
Pending settlements/expenses*	344	NA	NA	NA	NA	NA
Total fund	\$37,748	100.0%	100.0%	100.0%	100.0%	100.0%

* The liability portion is placed within the Statements of Plan Net Assets.

PORTFOLIO SECURITIES SUMMARY

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the previous Strategic Investment Listing table. The strategic investment listing represents assets assigned to managers within each asset class, whereas the portfolio securities summary represents specific types of financial instruments. The principal differences can be explained by the types of investments a manager is allowed to hold within its portfolio. For example, cash and currency held within a manager's portfolio is categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. However, in the portfolio securities summary, these investments are categorized as short-term investments and foreign currency.

Portfolio Securities Summary

	2011		2010	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. treasuries	\$308,087,946	0.8%	\$649,461,814	2.1%
U.S. federal agencies	160,285,470	0.4	253,893,175	0.8
U.S. government index-linked bonds	583,141,471	1.5	287,871,078	0.9
U.S. government-backed mortgages	789,535,623	2.1	955,686,526	3.0
U.S. government-backed bonds	2,381,562	0.0	110,671,769	0.4
U.S. government special situations	18,121,454	0.0	28,523,685	0.1
Municipals (taxable)	75,498,564	0.2	67,915,609	0.2
Credits				
Bank loans	25,751,829	0.1	988,929	0.0
Financial	629,597,186	1.7	694,537,178	2.2
Industrial	821,577,307	2.2	945,702,864	3.0
Utilities	92,406,632	0.3	89,049,210	0.3
Asset-backed securities	270,560,959	0.7	337,410,443	1.1
Commercial mortgage-backed securities	151,249,137	0.4	136,703,649	0.4
Collateralized mortgage obligations	220,255,229	0.6	322,117,221	1.0

(continued)

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	2011		2010	
	Market Value	% of Total	Market Value	% of Total
Commingled/closed-end funds	\$938,933,952	2.5%	\$71,868,583	0.2%
Corporate convertible bonds	76,330,713	0.2	41,782,788	0.1
Foreign debt/corporate obligations	1,923,717,517	5.1	1,557,088,214	5.0
Total Bonds, Corporate Notes, and Government Obligations	7,087,432,551	18.8	6,551,272,735	20.8
Equities				
Common stock - U.S.	9,954,432,992	26.3	8,098,482,440	25.7
Preferred stock - U.S.	25,036,843	0.1	37,372,707	0.1
Common stock - international	7,283,625,451	19.3	6,155,400,882	19.6
Preferred stock - international	132,602,466	0.4	120,403,725	0.4
Total Equities	17,395,697,752	46.1	14,411,659,754	45.8
Real Return - Commingled Funds				
Commodity funds	324,692,417	0.8	262,150,416	0.8
Global macro strategies	2,449,240,426	6.5	2,033,277,459	6.5
Total Real Return - Commingled Funds	2,773,932,843	7.3	2,295,427,875	7.3
Short-Term Investments/ Cash Equivalents	1,299,196,172	3.5	683,859,686	2.2
Derivatives - Options, Futures, and Swaps	9,610,104	0.0	(3,507,417)	0.0
Foreign Currency	89,428,959	0.2	68,454,294	0.2
Absolute Return	1,485,565,992	3.9	1,231,558,537	3.9
Private Equity	3,615,944,356	9.6	2,990,955,411	9.5
Real Estate Equity	3,991,533,162	10.6	3,252,463,291	10.3
TRS Total Portfolio	\$37,748,341,891	100.0%	\$31,482,144,166	100.0%

SECURITIES HOLDINGS (HISTORICAL)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

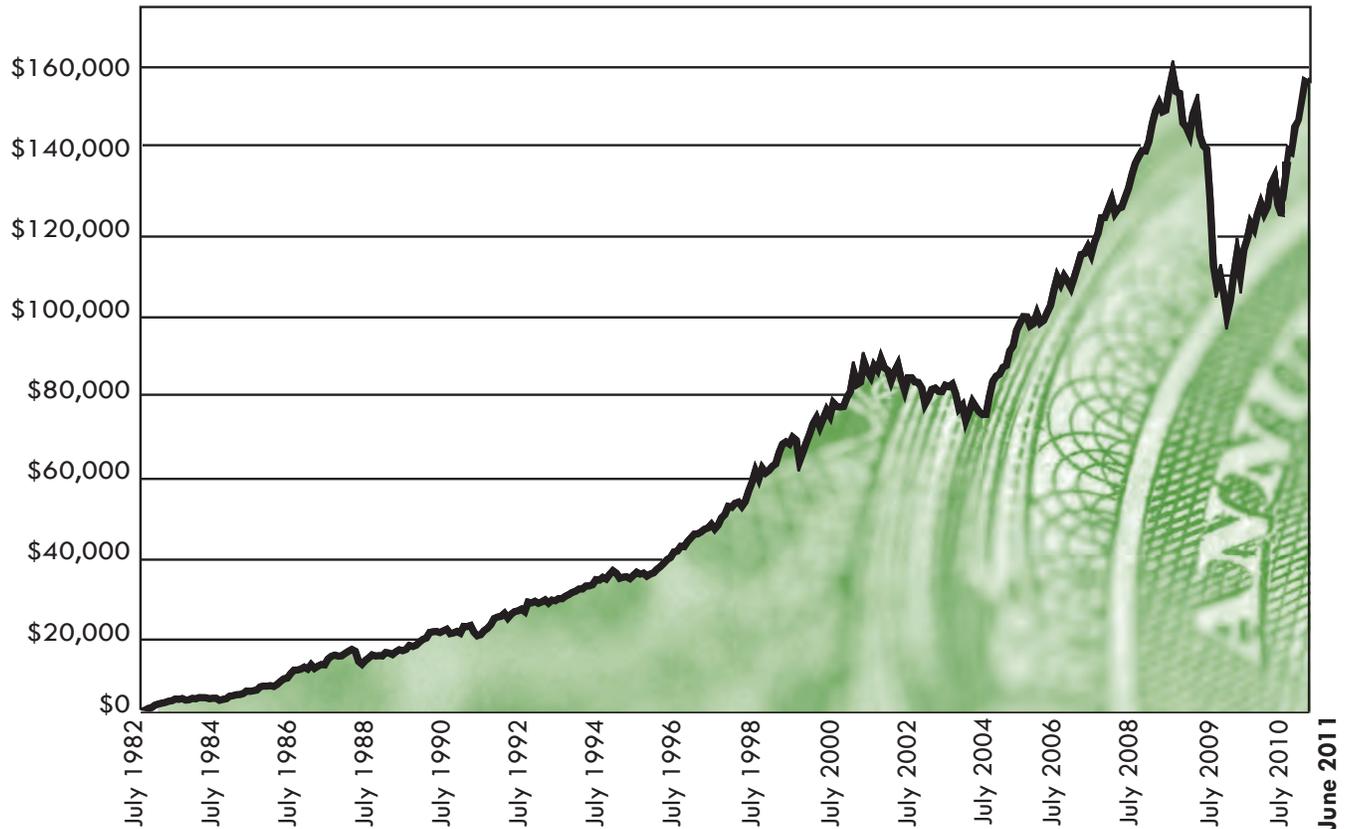
Securities Holdings for Years Ended June 30

Asset Type	2011	2010	2009	2008	2007
Bonds, corporate notes, and government obligations	18.8%	20.8%	22.0%	22.7%	24.0%
Equities - U.S.	26.4	25.8	27.8	27.5	33.0
Equities - international	19.7	20.0	18.9	21.5	22.6
Real estate equity	10.6	10.3	11.6	12.1	11.1
Private equity	9.6	9.5	8.1	6.1	4.5
Real return	7.3	7.3	5.3	5.4	-
Absolute return	3.9	3.9	2.5	1.3	1.2
Short-term investments/currency	3.7	2.4	3.8	3.4	3.6
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the \$10,000 over the last 29 years.

GROWTH OF \$10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ended June 30, 2011.

U.S. EQUITY

U.S. equity, or common stock, represents shares or units of ownership in public corporations domiciled within the United States. TRS invests in equities because the asset class offers the opportunity to participate in the success of the U.S. economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio earned a 32.9 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 32.4 percent. One-, three-, five-, and 10-year comparisons to this benchmark follow.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	32.9%	4.2%	2.7%	3.5%
Russell 3000 Index	32.4	4.0	3.4	3.4

The following top 10 U.S. equity holdings at June 30, 2011 represent 10.6 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 U.S. Equity Holdings at June 30, 2011

Firm	Market Value
Apple, Inc.	\$182,177,508
Exxon Mobil Corp.	163,348,540
JP Morgan Chase & Co.	114,439,377
Chevron Corp.	99,049,421
Microsoft Corp.	95,654,364
Pfizer, Inc.	91,606,016
Oracle Corp.	81,315,015
Wells Fargo & Co.	79,551,597
General Electric Co.	78,633,262
AT&T, Inc.	76,798,392
Total	\$1,062,573,492

Source: State Street Bank and Trust and TRS.

At June 30, 2011, 27.5 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during FY11.

U.S. Equity Managers and Assets Under Management (inception date of account)

Index (Large Cap)	
RhumbLine Advisors, L.P. (7/06)	\$2,475,198,519
Enhanced Index (Large Cap)	
MFS Institutional Advisors, Inc. (10/10)	288,357,442
T. Rowe Price Associates, Inc. (6/05)	732,146,970
Large Cap Core	
EARNEST Partners, L.L.C. (2/02)	209,417,803
J.P. Morgan Investment Management, Inc. (12/07)	565,697,837
Levin Capital Strategies, L.P. (10/10)	284,171,766
Large Cap Value	
Denali Advisors, L.L.C. (4/08)	252,144,061
Loomis, Sayles & Company, L.P. (3/10)	536,718,917
Robeco Boston Partners Asset Management, L.P. (3/10)	510,421,005
Large Cap Growth	
T. Rowe Price Associates, Inc. (11/06)	516,075,181
Turner Investment Partners, Inc. (6/04)	535,620,549
Wellington Management Company, L.P. (11/07)	323,150,647
Index (Small/Mid Cap Core)	
Rhumblin Advisors, L.P. (5/07)	220,318,161
Small/Mid Cap Value	
Boston Company Asset Management, L.L.C. (7/08)	303,041,126
Cramer Rosenthal McGlynn, L.L.C. (3/09)	209,644,600
LSV Asset Management (12/02)	309,621,467

(continued)

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Small/Mid Cap Growth

Boston Company Asset Management, L.L.C. (3/09)	\$257,229,230
Fred Alger Management, Inc. (12/07)	249,030,501
State Street Global Markets (4/11)	243,062,134

Small Cap Growth

Emerald Advisors, Inc. (11/04)	256,475,481
Frontier Capital Management, L.L.C. (7/09)	241,825,923

Small Cap Value

AQR Capital Management, L.L.C. (11/06)	203,177,553
Fiduciary Management Associates, L.L.C. (7/08)	203,671,938
Lombardia Capital Partners, L.L.C. (11/08)	203,537,869

Emerging Manager

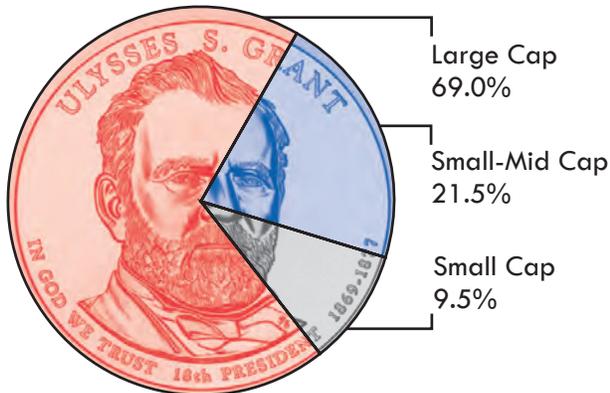
Credo Capital Management (6/09)	42,050,088
Herndon Capital Management, L.L.C. (3/11)	27,014,297
Lombardia Capital Partners, L.L.C. (3/10)	58,094,569
Oakbrook Investments (11/09)	32,780,585

Note: The list does not include managers terminated prior to June 30, 2011 with residual assets in the account.

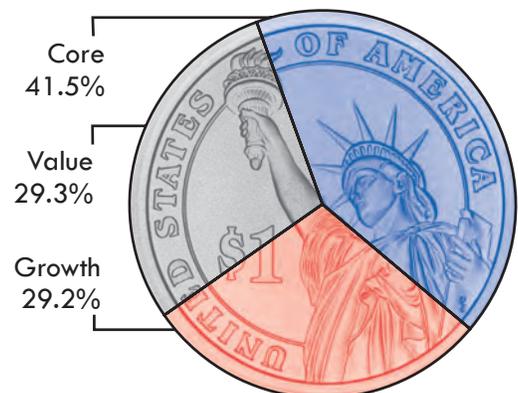
Discussion of U.S. Equity

Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization



Market Style



Source: TRS Investment Policy

Following a decline to end the prior fiscal year, the U.S. equity market produced strong returns through FY11. As fear abated and investors sought higher returns, the broad U.S. stock market (Russell 3000 Index) increased 32.4 percent for the year ended June 30, 2011. While gains were consistent through much of the year, investors began to sell equity securities during the last fiscal quarter due to renewed European sovereign debt concerns. Within this environment, the TRS domestic equity portfolio gained 32.9 percent for the fiscal year, beating its Russell 3000 benchmark by approximately 0.5 of a percentage point. The retirement system’s structural overweight to smaller companies was the key contributor to the portfolio’s outperformance.

Statistical Data

The following tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investible U.S. equity market.

TRS Domestic Equity as of June 30, 2011

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted average market cap (\$ billions)	\$55.5	\$73.2
Price/earnings ratio	20.5x	20.2x
Dividend yield	1.4%	1.8%
Beta	1.1	1.0
5-year EPS growth	6.9%	5.6%
Price/book ratio	3.4x	3.5x

Source: State Street Bank and Trust

U.S. Equity – Diversification by Industry Sector for Year Ended June 30, 2011

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer discretionary	13.3%	11.9%
Consumer durables	6.5	8.7
Energy	10.6	11.3
Financial services	15.8	16.2
Health care	11.9	11.4
Industrials	13.2	12.0
Materials	4.4	4.6
Technology	19.0	17.6
Telecommunication services	2.4	2.8
Utilities	2.9	3.5
Total	100.0%	100.0%

Source: State Street Bank and Trust and TRS

INTERNATIONAL EQUITY

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multi-nationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2011, the international equity asset class returned 30.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country Excluding U.S. Investable Market Index (identified as Non-U.S. Equity Index in the following references) return of 30.3 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	30.3%	(0.4%)	3.4%	7.5%
Non-U.S. Equity Index	30.3	0.3	4.3	8.0

The top 10 international equity holdings as of June 30, 2011 follow and represent 8.8 percent of the total international equity holdings. These investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy.

Top 10 International Holdings at June 30, 2011

Firm	Country	Market Value (USD)
Vodafone Group PLC	United Kingdom	\$84,158,994
Nestle SA	Switzerland	76,035,292
Eni SpA	Italy	70,285,072
Sanofi	France	66,288,356
Novartis AG	Switzerland	64,903,517
GlaxoSmithKline PLC	United Kingdom	62,278,476
BP plc	United Kingdom	60,658,270
Canon, Inc.	Japan	59,400,334
British American Tobacco PLC	United Kingdom	57,948,439
HSBC Holdings PLC	United Kingdom	54,378,094
Total		<u>\$656,334,844</u>

Source: State Street Bank and Trust and TRS

At June 30, 2011, 19.7 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during FY11.

International Equity Managers and Assets Under Management (inception date of account)

Large Cap Core

Aberdeen Asset Management, Inc. (7/10)	\$526,832,162
Northern Trust Investments, N.A. (8/10)	1,439,838,944

Large Cap Growth

Jarislowsky, Fraser Limited (8/05)	389,316,100
McKinley Capital Management, Inc. (8/05)	885,358,353
Trilogy Global Advisors, L.L.C. (8/07)	393,807,362

Large Cap Value

Brandes Investment Partners, L.P. (2/98)	805,476,528
Mondrian Investment Partners Limited (4/93)	860,291,096

Small/Mid Cap

American Century Global Investment Management, Inc. (6/08)	206,538,214
Dimensional Fund Advisors, L.P. (6/08)	242,990,758
Putnam Advisory Company, L.L.C. (3/09)	201,371,790
State Street Global Markets (8/07)	145,382,932

Emerging Manager

Strategic Global Advisors, L.L.C. (3/11)	25,298,085
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Emerging Markets

Aberdeen Asset Management, Inc. (3/08)	329,728,897
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	901,508,102

Note: The list does not include managers terminated prior to June 30, 2011 with residual assets in the account.

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio.

International Equity Manager Structure

International Equity Classification	Target	Actual
Large Cap Core	32.5%	26.8%
Large Cap Growth	20.0	22.8
Large Cap Value	20.0	22.7
Small/Mid Cap	11.0	10.9
Emerging Markets	16.5	16.8
Total	100.0%	100.0%

International equity markets posted strong gains for the year ended June 30, 2011. Market expectations were very positive during the first half of the fiscal year as investors focused on improving global economic conditions. Economically sensitive sectors such as energy, materials and industrials led equity markets higher during this period.

However, entering the new calendar year markets faced renewed uncertainty and volatility on a number of fronts. The tragic devastation of the Japanese tsunami disrupted supply chains to multiple industries and contributed to global economic uncertainty. Growing concerns over the Greek sovereign debt crisis and the potential for similar pressures in other European countries raised fears of another global financial crisis. Increasing inflation in many emerging market countries brought about new concerns over the stability and growth prospects for the global economy.

The TRS international equity portfolio recorded positive returns for the fiscal year gaining 30.3 percent, net of fees, matching the return of its benchmark. This performance was achieved despite the portfolio's defensive positioning, as TRS managers overweighted sectors such as telecom, consumer staples and healthcare at the expense of more economically sensitive sectors such as materials, energy and industrials.

Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio as of June 30, 2011.

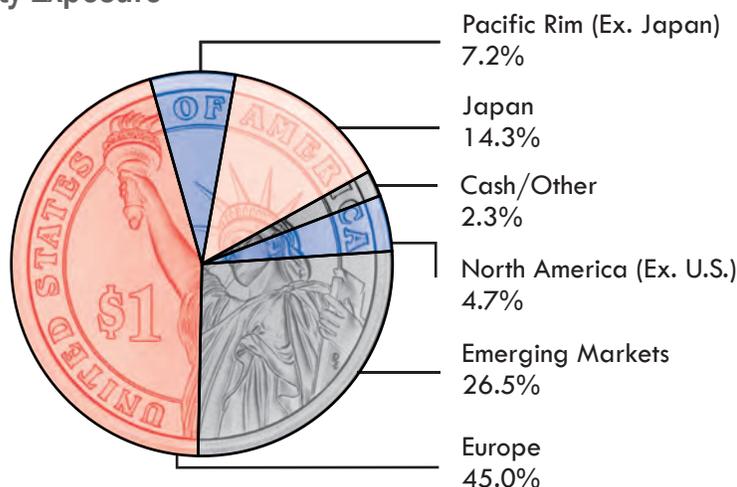
International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted average market cap (\$ billions)	\$41.3	\$46.9
Price/earnings ratio	14.5x	15.1x
Dividend yield	3.1%	3.1%
Price/book ratio	2.5x	2.5x

Source: State Street Bank and Trust

Regional Allocation Comparison at June 30, 2011

TRS International Equity Exposure



GLOBAL FIXED INCOME

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date, while paying specified interest during the term of the issue. A fixed income security represents a contractual obligation of a debt or a loan, with the issuer of debt as the borrower of capital, and the purchaser, or holder of bonds, as the creditor or lender.

Global fixed income is an important asset class in a well-diversified portfolio. Fixed income investments can reduce volatility, offer low or negative correlation to other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2011, the TRS fixed income portfolio returned 8.9 percent, net of fees, compared to the 3.9 percent return of the benchmark, the Barclays Capital U.S. Aggregate Index. For periods longer than five years, TRS utilized a blended index of U.S. and non-dollar indices.

One-, three-, five-, and 10-year comparisons to the relative benchmark follow.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	8.9%	10.1%	8.2%	6.9%
TRS Fixed Income Index	3.9	6.5	6.5	6.0

The following table lists the top 10 global fixed income investments held by TRS's managers as of June 30, 2011. To-be-announced (TBA) mortgages are underlying contracts on mortgage-backed securities (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2011

Security/Position	Market Value
Franklin Templeton Emerging Market Debt Fund	\$414,737,490
PIMCO Global Advantage Strategy Bond Fund	235,820,979
Loomis Sayles Absolute Strategies Trust	174,768,000
Federal National Mortgage Association TBA	71,123,938
Buoni Poliennali Del Tes	69,414,426
United Kingdom of Great Britain Treasury	62,336,432
Goldman Sachs Collective Trust Debt Implementation Fund	53,391,876
U.S. Treasury Inflation Linked Bond	48,913,207
U.S. Treasury Inflation Linked Bond	46,265,949
Goldman Sachs Collective Trust High Yield Fund	42,629,906
Total	<u>\$1,219,402,203</u>

Source: State Street Bank and Trust and TRS

At June 30, 2011, 16.7 percent of the TRS investment portfolio was assigned to global fixed income. TRS employed the following fixed income managers during FY11. This excludes fixed income-type assets overseen by managers in other asset classes containing fixed income securities as a small part of their overall strategies.

Global Fixed Income Managers and Assets Under Management (inception date of account)

Dolan McEniry Capital Management, L.L.C. (5/06)	\$368,925,331
Franklin Advisers, Inc. (2/08)	803,533,952
Franklin Templeton Investment Management Limited (12/10)	414,737,490
Garcia Hamilton & Associates, L.P. (6/10)	26,740,584
Goldman Sachs Asset Management, L.P. (5/06)	869,760,512
Hartford Investment Management Company (3/11)	271,050,707
LM Capital Group, L.L.C. (12/09)	27,514,184
Loomis Sayles & Company, L.P. (6/08)	806,578,383
Loomis Sayles Trust Company L.L.C. (3/11)	174,768,000
Oaktree PPIP Private Fund, L.P. (3/10)	18,121,454
Pacific Investment Management Company, L.L.C. (7/82)	1,027,101,960
Pacific Investment Management Company - Bank Recapitalization and Value Opportunities Bravo Fund, L.P. (1/11)	17,210,100
Pacific Investment Management Company - Global Advantage Strategy Bond Fund (3/11)	235,820,979
Prudential Investment Management, Inc. (12/08)	815,685,293
Taplin, Canida & Habacht (3/04)	358,795,233

Note: This list does not include certain managers terminated prior to June 30, 2011 with residual assets in the account.

Discussion of Global Fixed Income

TRS's fixed income portfolio outperformed the Barclays Capital U.S. Aggregate index by 5.0 percentage points, net of fees, during the fiscal year. TRS held an overweight position to most spread sectors going into the fiscal year with significant exposures to corporate bonds. These positions benefitted substantially as spreads compressed throughout the year. Other areas of strength included higher allocations to foreign denominated bonds, which took advantage of higher yields, and specific investments in special situations such as the Term Asset-backed Loan Facility (TALF) and the Public Private Investment Partnership (PPIP).

TRS's fixed income portfolio began the year with shorter duration than the benchmark. As the year progressed, the TRS portfolio moved toward a slightly longer duration position as it became evident the U.S. Federal Reserve remained committed to low interest rates. TRS also maintained an overweight to higher yielding non-U.S. securities. Throughout the year, the TRS fixed income portfolio held a similar risk profile relative to the index with lower volatility than duration matched nominal U.S. treasuries.

Statistical Data

The following data provides statistical information on TRS's global fixed income portfolio.

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/11	Barclays Capital Aggregate Index 6/30/11	TRS Fixed Income Portfolio 6/30/10	Barclays Capital Aggregate Index 6/30/10
Average maturity	7.2 years	7.0 years	9.3 years	5.9 years
Effective duration	5.0 years	5.0 years	4.8 years	4.1 years
Average coupon	4.9%	4.3%	4.8%	4.5%
Average quality rating	A2	Aa1	Aa3	Aa1
Current yield	4.3%	2.8%	4.4%	2.5%

Source: TRS

Diversification by Quality Rating for Individual Bonds

Moody's Quality Rating	2011	2010
Aaa*	46.9%	48.0%
Aa1 through Aa3	5.9	5.5
A1 through A3	9.6	11.5
Baa1 through Baa3	16.8	16.0
Ba1 through Ba3	8.5	7.9
B1 through B3	5.1	3.2
Under B3	1.7	1.7
Other**	5.5	6.2
Total	100.0%	100.0%

* Aaa includes treasury securities

** Other includes unrated securities

Source: State Street Bank and Trust and TRS

REAL RETURN

The real return asset class was established during 2007 in recognition of the significant impact inflation has on an investment portfolio and its return objectives. Traditional asset classes, such as equities and fixed income, tend to perform well in periods of stable or falling inflation yet face meaningful challenges in periods of rising inflation.

The objective of the real return asset class is to exceed the Consumer Price Index (CPI) by 5.0 percentage points over a five- to 10-year period of time. Real return strategies are generally less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund. It should be noted that the CPI is not an investible benchmark, but is utilized as a benchmark given the inflation focus of the asset class. For the year ended June 30, 2011, TRS's real return asset class earned 23.4 percent, net of fees, compared to the 8.7 percent return of the benchmark.

	FY11	3-Year	Since Inception
TRS, net of fees	23.4%	1.1%	5.7%
Consumer Price Index + 5%	8.7	6.1	7.1

At June 30, 2011, 9.8 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked bonds, global macro, and long-only commodity strategies during the fiscal year. The asset class maintains a risk profile between equities and fixed income. As of June 30, 2011, TRS employed the following managers and/or funds including their respective assets under management.

Real Return Managers and Assets Under Management (inception date of account)

Global Inflation-linked Bonds

New Century Advisors, L.L.C. (2/08)	\$252,643,207
Pacific Investment Management Company, L.L.C. (5/07)	605,072,644

Global Macro Strategies

AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	615,243,782
Bridgewater All Weather Portfolio Offshore Limited (7/07)	719,356,938
PIMCO Global Multi-Asset Strategy (12/09)	541,435,525
Wellington Management Company – Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	617,937,966

Commodities

Gresham Investment Management Company, L.L.C. (3/09)	114,378,384
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	210,314,033

Discussion of Real Return

The 23.4 percent return of the real return asset class during the fiscal year was led by commodities earning 28.9 percent. Investments in the global macro sector earned 25.6 percent and global inflation-linked bonds followed with 14.3 percent, all net of fees. The U.S. inflation rate increased from 1.1 percent to 3.6 percent over the fiscal year, driven primarily by commodity and rental prices. TRS recognized significant profits from the real return asset class during the fiscal year, selling investments for rebalancing purposes as needed.

The real return portfolio continues to serve as a portfolio diversifier and protection against the harmful effects of inflation on the total fund. The policy target for real return remains 10 percent of total fund.

Real Return Targets and Actual Allocation as of June 30, 2011

Real Return Subclasses	Target	Actual
Global inflation-linked bonds	24.0%	23.3%
Global macro strategies	66.0	67.9
Commodities	10.0	8.8
Total	100.0%	100.0%

Source: TRS

PRIVATE EQUITY

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital

to start-up companies and for continued growth in privately held companies and firms that are restructuring to better compete. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments as well. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified across all sub-sectors within private equity, including buyout, growth equity, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance against the Russell 3000 stock index plus 300 basis points (3 percentage points). This benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ended June 30, 2011, private equity earned 22.3 percent on a net of fee basis, compared to the benchmark gain of 36.2 percent.

In general, an investor must look at a longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term return, outperforming the benchmark by 2.8 and 0.5 percentage points over the five- and 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is above expectations. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table.

	FY11	3-Year	5-Year	10-Year
TRS, net of fees	22.3%	5.4%	9.3%	7.1%
Russell 3000 Index + 3.0%	36.2	7.1	6.5	6.6

At June 30, 2011, 9.7 percent of the TRS investment portfolio was assigned to the private equity asset class. The FY11 policy target for private equity is 10 percent of the total fund. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has investments with as of June 30, 2011.

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

Buyout

Advent International GPE VI, L.P. (7/08)	\$40,731,524
Apollo Investment Fund V, L.P. (5/01)	61,597,851
Apollo Investment Fund VI, L.P. (5/06)	170,021,977
Apollo Investment Fund VII, L.P. (1/08)	183,842,711
Banc Fund VI, L.P. (6/02)	31,953,861
Banc Fund VII, L.P. (5/05)	25,161,382
Baring Asia Private Equity Fund V, L.P. (3/11)	86,336
Carlyle Partners IV, L.P. (4/05)	96,147,930
Carlyle Partners V, L.P. (7/07)	132,004,603
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	62,162,236
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06)	98,570,628
Castle Harlan Partners IV, L.P. (5/03)	8,958,852
Code Hennessy & Simmons V, L.P. (2/05)	25,651,581
DLJ Merchant Banking Partners II, L.P. (3/97)	3,385,980
DLJ Merchant Banking Partners III, L.P. (9/00)	75,587,238
Elevation Partners, L.P. (4/05)	18,376,555
Energy Capital Partners I, L.P. (4/06)	25,790,234

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Energy Capital Partners II-A, L.P. (9/09)	\$13,112,769
EnerVest Energy Institutional Fund XII-A, L.P. (12/10)	9,507,399
Evercore Capital Partners II, L.P. (4/03)	25,196,667
GI Partners (1/09)	36,463,036
Glencoe Capital Partners III, L.P. (1/04)	16,010,205
Glencoe Capital Institutional Partners III, L.P. (6/04)	4,892,387
Green Equity Investors V, L.P. (8/07)	80,468,440
GTCR Fund VII/VIIA, L.P. (3/00)	315,681
GTCR Fund VIII, L.P. (7/03)	19,961,566
Hispania Private Equity, L.P. (5/04)	1,190,752
ICV Partners II, L.P. (1/06)	12,465,562
J.C. Flowers II, L.P. (2/07)	13,387,564
KKR 1996 Fund, L.P. (5/97)	3,491,782
Littlejohn Fund IV, L.P. (7/10)	17,893,720
Madison Dearborn V, L.P. (7/06)	84,481,190
MBK Partners Fund II, L.P. (5/09)	17,514,155
Mesirow Capital Partners VII, L.P. (6/97)	602,270
Morgan Creek Partners Asia, L.P. (1/11)	20,129,949
New Mountain Partners III, L.P. (8/07)	55,759,455
Onex Partners III, L.P. (04/09)	13,158,308
PAI Europe V, L.P. (4/08)	21,903,921
Pine Brook Capital Partners, L.P. (1/08)	21,756,828
Providence Equity Partners VI, L.P. (3/07)	100,904,682
Reliant Equity Partners, L.P. (6/04)	215,043
Riverstone/Carlyle GL IV (3/08)	82,772,764
Silver Lake Partners III, L.P. (8/07)	67,309,604
Stone Point Capital Trident V, L.P. (12/10)	14,901,986
TCW/Latin America Private Equity Partners, L.P. (5/97)	31,089
Thayer Equity Investors V, L.P. (5/03)	52,942,516
TPG Partners IV, L.P. (12/03)	35,449,634
TPG Partners VI, L.P. (4/08)	59,570,327
Trilantic Capital Partners III, L.P. (4/05)	17,428,839
Trilantic Capital Partners IV, L.P. (10/07)	20,914,244
Trivest Fund II, Ltd. (4/96)	2,772,130
Veritas Capital Fund IV, L.P. (11/10)	23,846,658
Veritas Capital Fund IV, L.P. Annex A (2/11)	7,500,000
Vicente Capital Partners Growth Equity Fund, L.P. (4/08)	3,593,619
Vista Equity Partners Fund III, L.P. (11/07)	52,094,522
VS&A Communications Partners II, L.P. (8/95)	1,350,080
VSS Communications Partners IV, L.P. (3/05)	32,819,222
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	54,881,755
Windpoint Partners VI, L.P. (2/06)	22,986,681
WPG Corporate Development Associates V, L.P. (11/97)	873,381

Distressed Debt

Avenue Europe Special Situations Fund, L.P. (5/08)	35,571,616
Avenue Special Situations Fund V, L.P. (10/07)	13,651,742

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Blackstone/GSO Capital Partners (9/09)	\$47,766,541
Carlyle Strategic Partners, L.P. (10/04)	24,412,278
Clearlake Capital Partners II, L.P. (7/09)	14,006,065
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	13,102,613
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	57,946,927
MatlinPatterson Preferred II (3/09)	10,379,471
Oaktree Annex A (11/10)	16,829,984
Oaktree Opportunities Fund VIII, L.P. (3/10)	82,057,603
OCM Opportunities Fund V, L.P. (6/04)	6,138,706
OCM Opportunities Fund VIIb, L.P. (6/08)	103,917,366
OCM European Principal Opportunities Fund II, L.P. (8/08)	63,388,251

Subordinated Debt

Maranon Mezzanine Fund, L.P. (8/09)	10,265,030
Merit Mezzanine Fund IV, L.P. (1/05)	49,426,405
Prism Mezzanine Fund, L.P. (12/04)	6,773,854
SW Pelham Fund II, L.P. (9/03)	6,519,843
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	33,772,105
William Blair Mezzanine Capital Fund II, L.P. (5/97)	3,882,993
William Blair Mezzanine Capital Fund III, L.P. (1/00)	5,690,629

Venture Capital

21st Century Communications T-E Partners, L.P. (2/95)	276,862
Apex Investment Fund V, L.P. (8/03)	9,113,761
Carlyle Venture Partners II, L.P. (10/02)	41,961,872
Carlyle U.S. Growth Fund III, L.P. (6/07)	43,098,079
Edgewater Growth Capital Partners, L.P. (11/03)	20,760,987
Edgewater Growth Capital Partners II, L.P. (2/06)	22,445,657
Evergreen Partners IV, L.P. (12/02)	13,210,776
Evergreen Partners V, L.P. (6/07)	10,617,478
Granite Ventures II, L.P. (5/05)	11,527,391
HealthPoint Partners, L.P. (6/04)	21,616,360
Hopewell Ventures, L.P. (6/04)	4,653,262
Illinois Emerging Technologies Fund, L.P. (6/04)	1,633,316
JMI Equity Fund VII, L.P. (2/11)	2,089,407
Longitude Venture Partners, L.P. (3/08)	26,294,566
SCP Private Equity Partners, L.P. (5/97)	128,230
SCP Private Equity Partners II, L.P. (6/00)	56,695,766
Shasta Ventures, L.P. (1/05)	18,155,253
Starvest Partners, L.P. (1/09)	5,622,117
Technology Crossover Ventures VII, L.P. (10/08)	18,564,223
VantagePoint Venture Partners IV, L.P. (6/00)	45,476,406
VantagePoint Venture Partners 2006, L.P. (12/06)	38,973,168
Warburg Pincus International Partners, L.P. (9/00)	79,059,502
Warburg Pincus Private Equity IX, L.P. (9/05)	104,843,818
Warburg Pincus Private Equity X, L.P. (10/07)	197,736,136
WPG Enterprise Fund II, L.P. (8/94)	2,247,218
WPG Enterprise Fund III, L.P. (3/97)	8,944,505

Discussion of Private Equity

TRS's private equity portfolio earned 22.3 percent, net of fees, through the fiscal year. While under its one-year benchmark, private equity outperformed on a five- and 10-year basis. The long-term performance strength of the private equity program and the asset class's diversification benefits the overall portfolio. TRS continues to prudently increase its exposure to private equity. In April 2011, the Board of Trustees adopted a new asset allocation study that increased the private equity allocation target to 12 percent. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality private equity opportunities in the market. The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2011.

Private Equity Target and Actual Allocation as of June 30, 2011

Subclasses	Target	Actual
Buyout	60-80%	58.7%
Venture capital	5-20	22.2
Special situations/distressed debt/subordinated debt	10-25	19.1
Total		100.0%

Source: TRS

TRS made new commitments to 10 separate private equity funds totaling nearly \$590 million during the fiscal year. Included in this total were funds designed to strategically benefit during recessionary or distressed market environments. TRS remains opportunistic and continues to diversify its private equity portfolio for the global opportunity set. For FY12, the TRS private equity tactical plan calls for new commitments of approximately \$900 to \$1,400 million within the asset class.

ABSOLUTE RETURN

The absolute return asset class includes mandates designed to provide attractive return and risk attributes while exhibiting low correlation to traditional public equity and fixed income investments. Along with the real return asset class, the absolute return class was established as a result of an asset allocation study adopted in FY07.

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. During the fiscal year, TRS began implementation of a program whereby the retirement system, with the assistance of existing fund of funds relationships, will build direct positions in higher conviction mandates.

The fiscal year target allocation for absolute return is 5.0 percent of the overall TRS investment portfolio. The asset class is measured against a relative risk-free index of 90-Day Treasury Bills + 4.0 percent. While this is not an investible index, the benchmark represents the intended risk reduction characteristic of the asset class.

For the year ended June 30, 2011, TRS's absolute return investment asset class earned 12.4 percent, net of fees, compared to the 4.2 percent return of the benchmark.

	FY11	3-Year
TRS, net of fees	12.4%	2.0%
Treasury Bill + 4%	4.2	4.4

At June 30, 2011, 4.0 percent of TRS's investment portfolio was assigned to absolute return managers and TRS employed the following managers including their respective assets under management.

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

Diversified Funds

Bridgewater Pure Alpha Fund I (1/09) \$380,231,003

Diversified Fund of Funds

Grosvenor Monarch Fund, L.L.C. (6/07) 397,560,365

K2 Bluegill Fund, L.L.C. (6/07) 577,176,785

Direct Investment Funds

Grosvenor Monarch Fund, L.L.C. (Monarch Series B) (3/11) 50,465,502

K2 Bluegill Fund, L.L.C. (Bluegill Series B) (3/11) 51,078,950

Emerging Manager

Lasair Capital L.L.C. (8/09) 29,053,387

\$1,485,565,992

Discussion of Absolute Return

The absolute return asset class performed reasonably well given the severity and volatility of the global market crisis and subsequent recovery. The absolute return portfolio outperformed its benchmark in FY11 due to strong performance of underlying managers combined with modest exposure to both the equity and credit markets. Longer term, this modest equity exposure also explains the lagging performance for the trailing three-year period. Importantly and consistent with the intent of the asset class, the absolute return portfolio continues to exhibit a low risk profile with volatility less than one-third that of U.S. equities. In April 2011, the Board of Trustees raised the long-term absolute return policy target by 3.0 percent to 8.0 percent of total fund.

REAL ESTATE

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, and hotels. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

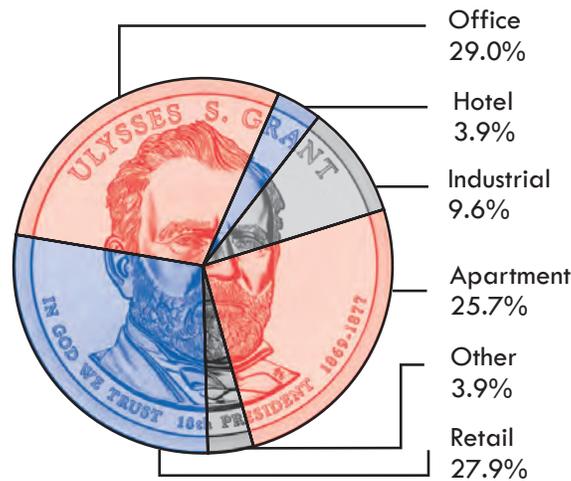
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2011, TRS held \$4.1 billion in real estate assets, or 10.8 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments earned 17.8 percent, net of fees. Real estate performance and benchmark comparisons are noted in the following table.

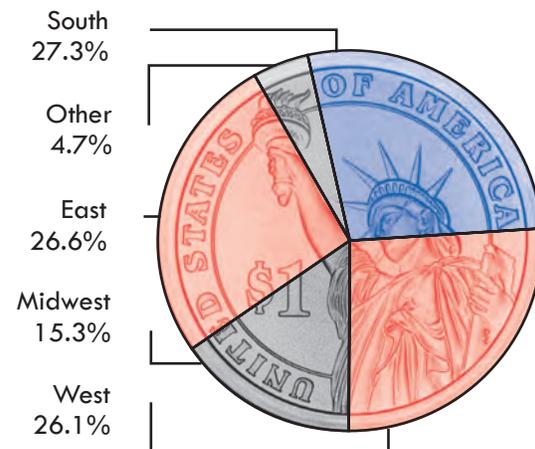
	FY11	3-Year	5-Year	10-Year
TRS, net of fees	17.8%	(8.0%)	0.4%	6.2%
Real Estate Property Index	16.7	(2.6)	3.4	7.6

To enhance returns and reduce risk, TRS acquires high quality properties diversified geographically and by property type. TRS's real estate holdings by type and geography are exhibited in the following charts.

Real Estate Holdings by Type as of June 30, 2011



Geographic Diversification of Real Estate Holdings as of June 30, 2011



Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed-end and open-end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2011, TRS employed the following managers including their respective assets under management.

Real Estate Managers and Assets Under Management (inception date of account)

Separate Accounts

Capri/Capital Advisors, L.L.C. (12/91)	\$773,186,870
Cornerstone Real Estate Advisors, L.L.C. (7/08)	237,637,410
Cornerstone Real Estate Advisors, L.L.C. II (7/09)	10,597,160
Cornerstone Real Estate Advisors, L.L.C. III (8/09)	92,525,521
Heitman Capital Management, L.L.C. (7/09)	888,947,923
Invesco Institutional (N.A.), Inc. (7/08)	254,117,374
Koll Bren Schreiber Realty Advisors I (6/93)	314,195,751
LPC Realty Advisors I, Ltd. (7/92)	347,247,426
LPC Realty Advisors Core, Ltd. (4/07)	101,908,735

Closed-End Accounts

Beacon Capital Strategic Partners V, L.P. (8/07)	38,219,664
Blackstone Real Estate Partners VI, L.P. (9/07)	53,073,443
Capri Capital Advisors Apartment Fund III, L.P. (11/02)	138,033,145
Capri Select Income Fund II, L.L.C. (12/05)	4,454,380
Carlyle Realty Partners IV, L.P. (6/05)	42,166,340
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	14,784,506
JBC Opportunity Fund II, L.P. (5/03)	16,628,882
JER Real Estate Qualified Partners III, L.P. (1/05)	26,419,541
RLJ Lodging Fund II, L.P. (9/06)	30,617,630
RLJ Lodging Fund III, L.P. (9/08)	32,735,223
Thayer Hotel Investors IV, L.P. (5/04)	7,729,832

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Walton Street Real Estate Fund IV, L.P. (7/03)	\$65,380,039
Walton Street Real Estate Fund VI, L.P. (4/09)	63,690,883
Open-End Accounts	
Hines U.S. Core Office Fund, L.P. (12/05)	157,751,662
Lion Industrial Trust (4/05)	153,502,161
International Real Estate Accounts	
Carlyle Europe Real Estate Partners, L.P. (6/03)	10,639,923
Carlyle Europe Real Estate Partners III, L.P. (9/07)	40,520,982
CB Richard Ellis Strategic Partners Europe Fund III, L.P. (4/07)	35,428,127
CB Richard Ellis Strategic Partners UK Fund III, L.P. (5/07)	12,174,561
LaSalle Asia Opportunity Fund III, L.P. (11/07)	26,938,211
MGPA Asia Fund III, L.P. (12/07)	62,574,616
	<u>\$4,062,261,189</u>

Discussion of Real Estate

TRS's real estate portfolio earned 17.8 percent during the fiscal year. Following a couple very challenging years for the asset class due to the global financial crisis, commercial real estate markets have steadily improved for the past several quarters. Market fundamentals such as property level income, rental rates, and sales have been improving in core markets such as New York, Boston, and Washington D.C., while secondary and tertiary markets have been slower to recover. Investors have demonstrated a flight to quality that has driven core values higher and led to improving near term performance. The TRS investment portfolio maintains a long-term target allocation of 14 percent to real estate and is currently 10.8 percent invested in the asset class. The portfolio will continue its efforts to move toward the long-term allocation through strategic allocations and opportunistically taking advantage of the property transaction market.

SECURITIES LENDING

TRS participates in securities lending with its custodian, State Street Bank and Trust Company, acting as the securities lending agent. The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers or other entities. Additional information regarding securities lending activity is included in the Notes to Financial Statements under "D. Investments."

For the year ended June 30, 2011, TRS earned net income of \$17.8 million through its securities lending program. The income from this program was less than the prior fiscal year mainly due to a decrease in the average on loan balance. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, the amount of collateral for these securities, and the average utilization rate information.

Securities Lending Summary

	FY11	FY10
Net securities lending income	\$17,793,331	\$21,111,429
Values as of fiscal year-end (June 30):		
Total State Street collateral market value	3,217,193,460	3,568,594,875
Total market value of securities on loan at State Street	3,132,542,532	3,473,627,126
Total collateralized percentage	103%	103%
Fiscal year 12 month averages:		
Average lendable	17,791,565,341	16,747,267,594
Average on loan	3,329,090,638	3,891,585,303
Average utilization	18.7%	23.2%

Source: State Street Bank and Trust

Note: Securities lending collateral reflected on the Statements of Plan Net Assets reflects the securities purchased with cash collateral.

BROKERAGE ACTIVITY

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2011 and 2010. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2011, TRS recaptured \$0.9 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY11, TRS used \$0.6 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY11 Commission	FY10 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$2,475,734	\$2,208,488
J.P. Morgan Securities, Inc. (Worldwide)	1,614,848	1,363,340
Credit Suisse (Worldwide)	1,236,294	1,451,809
Goldman Sachs & Co. (Worldwide)	1,117,886	1,364,243
State Street Brokerage Services (Worldwide)	942,354	349,498
Citigroup, Inc. and all Subsidiaries (Worldwide)	905,820	892,172
UBS Warburg Securities and all Subsidiaries (Worldwide)	904,869	1,180,196
Deutsche Bank & Securities (Worldwide)	863,557	579,915
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	723,188	958,438
Bank of New York Mellon (Worldwide)	611,265	761,324
Barclays (Worldwide)	540,107	935,045
Instinet, L.L.C. (Worldwide)	478,808	697,429
Cabrera Capital Markets, Inc.	439,970	312,754
Macquarie Bank & Securities, Ltd. (Worldwide)	417,620	381,794
Liquidnet, Inc.	358,781	516,936
RBC Dain Rauscher (Worldwide)	323,895	135,481
Investment Technology Group, Inc. (Worldwide)	323,675	356,336
Jefferies & Company	303,459	303,230
Credit Agricole	244,698	120,848
Stifel Nicolaus & Company (Worldwide)	244,292	194,319
Loop Capital Markets, L.L.C.	238,541	285,386
Nomura International (Worldwide)	221,746	233,562
Bloomberg Tradebook, L.L.C.	218,492	126,754
M. Ramsey King Securities	206,378	236,951
Williams Capital Group, L.P.	200,074	73,903
Baird, Robert W., & Company, Incorporated	182,206	138,691
Ivy Securities, Inc.	181,956	320,695
Cantor Fitzgerald	174,613	142,510
G-Trade Services, L.L.C.	161,085	50,026
BNP Paribas (Worldwide)	157,146	63,621
Sanford Bernstein (Worldwide)	151,402	171,960
HSBC (Worldwide)	135,929	68,335
Knight Securities, L.P.	133,563	138,868
Raymond James (Worldwide)	125,143	137,458
Piper Jaffray, Inc.	120,479	176,070
Bley Investment Group, Inc.	111,709	32,431

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Broker	FY11 Commission	FY10 Commission
Weeden & Co.	\$108,314	\$242,140
Pipeline Trading Systems, L.L.C.	104,647	331,741
CLSA Securities	101,543	38,237
Credit Lyonnais Securities (Worldwide)	100,592	141,868
M.R. Beal & Company	95,485	50,313
Societe Generale	91,439	57,452
Morgan Keegan & Co., Inc.	91,037	67,482
Guzman & Company	88,622	76,753
Pulse Trading, L.L.C.	88,154	101,407
Melvin Securities, L.L.C.	79,202	98,568
ISI Group Inc.	76,942	51,349
Citation Group	74,917	72,133
Suntrust Robinson Humphrey	72,333	79,772
Oppenheimer & Company, Inc. (Worldwide)	70,967	128,526
(All Others - 272 Brokers in FY11, 258 Brokers in FY10)	3,425,371	4,157,393
Total	<u>\$22,461,147</u>	<u>\$23,155,950</u>

Source: State Street Bank and Trust and TRS

EXTERNAL MANAGER FEE PAYMENTS

For the year ended June 30, 2011, fee payments to external investment managers totaled \$188.3 million, an increase of 3.5 percent from the year ended June 30, 2010. The rise is attributable to the increase in public funds asset values and the respective fees that are based on average asset values.

Schedule of Investment Manager Fees

Investment Manager/Account	FY11	FY10
Aberdeen Asset Management, Inc.	\$3,181,347	\$1,989,881
Advent International GPE VI, L.P.	976,430	978,929
American Century Global Investment Management, Inc.	1,541,838	1,265,207
Analytic Investors, L.L.C.	769,938	2,129,975
Apex Investment Fund V, L.P.	300,573	376,002
Apollo Investment Fund VII, L.P.	4,224,498	903,212
AQR Capital Management, L.L.C.	1,482,883	1,541,928
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	2,899,979	2,061,817
Avenue Europe Special Situations Fund, L.P.	634,705	571,271
Avenue Special Situations Fund V, L.P.	1,228,273	1,500,000
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	901,200	865,200
Baring Asia Private Equity Fund V	933,333	0
BlackRock, Inc.	0	711,721
Blackstone Capital Partners VI, L.P.	925,442	0
Blackstone Real Estate Partners VI, L.P.	746,421	742,219
Blackstone/GSO Capital Solutions Fund, L.P.	20,417	0
Boston Company Asset Management, L.L.C.	3,078,727	2,520,364
Brandes Investment Partners, L.P.	3,591,290	3,504,649
Bridgewater All Weather Portfolio Offshore Limited	2,140,032	1,787,315
Bridgewater Pure Alpha Fund I	10,372,005	7,204,655
Capri Select Income II, L.L.C.	56,695	171,583
Capri/Capital Advisors, L.L.C.	2,395,282	2,189,723
Capri Capital Advisors Apartment Fund III, L.P.	1,496,984	1,496,984
Carlyle Europe Real Estate Partners III, L.P.	905,572	1,162,718

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Investment Manager/Account	FY11	FY10
Carlyle Europe Real Estate Partners, L.P.	\$76,174	\$436,099
Carlyle Partners IV, L.P.	391,385	584,960
Carlyle Partners V, L.P.	2,128,644	2,324,097
Carlyle Realty Partners IV, L.P.	890,346	890,346
Carlyle Strategic Partners, L.P.	2,791	140,160
Carlyle U.S. Growth Fund III, L.P.	1,000,000	1,000,000
Carlyle Ventures Capital II, L.P.	1,014,317	1,461,096
Carlyle/Riverstone Global Energy Fund II, L.P.	549,708	584,219
Carlyle/Riverstone Global Energy Fund III, L.P.	717,941	712,979
Castle Harlan Partners IV, L.P.	0	2,876
CB Richards Ellis Strategic Partners Europe Fund III, L.P.	572,240	696,857
CB Richards Ellis Strategic Partners UK Fund III, L.P.	378,605	452,674
Clearlake Capital Partners II, L.P.	448,773	485,005
Code Hennessy & Simmons V, L.P.	132,563	97,218
Copper Rock Capital Partners, L.L.C.	402,703	1,206,170
Cornerstone Hotel Income & Equity Fund II, L.P.	186,373	138,722
Cornerstone Real Estate Advisors, L.L.C.	1,307,577	1,509,955
Cramer Rosenthal McGlynn, L.L.C.	1,074,831	902,144
Credo Capital Management, L.L.C.	206,338	171,090
Denali Advisors, L.L.C.	577,089	293,185
Dimensional Fund Advisors, L.P.	1,422,092	1,321,435
DLJ Merchant Banking Partners II, L.P.	0	23,860
DLJ Merchant Banking Partners III, L.P.	189,553	479,467
Dodge & Cox	312,156	1,314,471
Dolan McEniry Capital Management, L.L.C.	576,630	470,531
EARNEST Partners, L.L.C.	506,509	1,152,749
Edgewater Growth Capital Partners II, L.P.	289,098	242,096
Edgewater Growth Capital Partners, L.P.	220,438	274,846
Elevation Partners, L.P.	161,294	375,000
Emerald Advisers, Inc.	1,409,225	1,200,609
Energy Capital Partners I, L.P.	454,598	646,544
Energy Capital Partners Fund II-A, L.P.	667,913	630,502
Envest Energy Institutional Fund XII-A, L.P.	1,148,352	0
EQT VI	134,092	0
Evercore Capital Partners II, L.P.	116,563	215,322
Evergreen Partners IV, L.P.	219,582	445,089
Evergreen Partners V, L.P.	625,000	625,000
Fiduciary Management Associates, L.L.C.	1,078,197	295,631
Franklin Advisers, Inc.	2,207,935	1,872,069
Franklin Templeton Investment Management Limited	939,284	0
Fred Alger Management, Inc.	1,258,686	895,507
Frontier Capital Management, L.L.C.	1,163,594	989,560
Garcia Hamilton & Associates, L.P.	65,764	3,367
GI Partners	613,565	744,058
Glencoe Capital Partners III, L.P.	85,535	171,969
Goldman Sachs Asset Management, L.P.	1,307,267	1,529,539
Granite Ventures II, L.P.	378,538	500,000
Grantham, Mayo, Van Otterloo & Co., L.L.C.	6,459,866	6,542,346
Green Equity Investors V, L.P.	533,714	1,439,805
Gresham Investment Management Company, L.L.C.	478,261	412,856
Grosvenor Monarch Fund, L.L.C.	2,845,281	2,174,773
GTCR Fund VII/VIIA, L.P.	38,562	299,788
GTCR Fund VIII, L.P.	413,718	385,289
Hartford Investment Management Company	73,084	0
HealthPoint Partners, L.P.	435,512	471,894
Heitman Capital Management, L.L.C.	3,763,605	3,839,244
Herndon Capital Management, L.L.C.	52,227	0

(continued)

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Investment Manager/Account	FY11	FY10
Hines U.S. Core Office Fund, L.P.	\$850,000	\$850,000
Hispania Private Equity, L.P.	132,331	139,475
Hopewell Ventures, L.P.	325,379	334,891
ICV Partners II, L.P.	235,571	250,330
Illinois Emerging Technologies Fund, L.P.	15,922	16,826
Invesco Institutional (N.A.), Inc.	1,156,164	1,195,606
J.C. Flowers II, L.P.	294,997	188,221
Jarislowky, Fraser Limited	825,264	803,525
JBC Opportunity Fund II, L.P.	248,972	333,580
JER Real Estate Qualified Partners III, L.P.	306,499	387,040
JMI Equity Fund VII, L.P.	131,246	0
JP Morgan Investment Management, Inc.	93,645	30,599
JP Morgan Management Associates, L.L.C.	3,725,854	3,691,120
K2 Bluegill Fund, L.L.C.	4,446,118	3,602,377
KKR 1996 Fund, L.P.	27,883	49,858
Koll Bren Schreiber Realty Advisors	970,193	1,379,008
Lasair Capital L.L.C.	288,125	230,017
LaSalle Asia Opportunity Fund III, L.P.	845,392	994,017
Levin Capital Strategies, L.P.	436,368	0
Lion Industrial Trust	1,534,004	1,426,538
Littlejohn Fund IV, L.P.	765,276	252,434
LM Capital Group, L.L.C.	81,855	20,098
Lombardia Capital Partners, L.L.C.	1,348,933	311,517
Longitude Ventures Partners, L.P.	750,000	750,000
Loomis, Sayles & Company, L.P.	3,766,996	2,533,237
LPC Realty Advisors I, Ltd.	1,496,229	1,164,844
LSV Asset Management	1,628,460	2,019,214
Madison Dearborn V, L.P.	382,992	493,820
Maranon Mezzanine Fund, L.P.	267,912	444,178
MatlinPatterson Global Opportunities Fund III, L.P.	1,572,146	1,497,631
Mazama Capital Management, Inc.	622,536	1,351,606
MBK Partners Fund II, L.P.	412,655	396,857
McKinley Capital Management, Inc.	2,033,636	2,345,934
Merit Mezzanine Fund IV, L.P.	689,075	862,331
MFS Institutional Advisors, Inc.	378,174	0
MGPA Asia Fund III, L.P.	986,257	1,140,064
Mondrian Investment Partners Limited	1,829,899	1,883,660
Morgan Creek Partners Asia, L.P.	1,031,662	0
New Century Advisors, L.L.C.	291,284	179,635
New Mountain Investments III, L.P.	1,353,490	1,475,272
Northern Trust Investments, N.A.	171,392	0
OakBrook Investments, L.L.C.	82,133	46,744
Oaktree PPIP Private Fund, L.P.	56,365	19,270
OCM European Principal Opportunities Fund II, L.P.	1,232,492	1,089,768
OCM Opportunities Fund V, L.P.	120,106	28,672
OCM Opportunities Fund VIIb, L.P.	1,434,389	1,528,326
OCM Opportunities Fund VIII, L.P.	1,359,192	1,105,020
Onex Partners III, L.P.	486,183	404,595
Pacific Investment Management Company, L.L.C.	8,755,933	11,403,390
PAI Europe V, L.P.	463,989	790,519
Piedmont Investment Advisors, L.L.C.	61,856	197,501
PIMCO Private Funds II, L.P.	39,317	77,584
Pine Brook Capital Partners, L.P.	851,546	851,546
Prism Mezzanine Fund, L.P.	503,023	589,532
Providence Equity Partners VI, L.P.	639,169	1,478,605
Prudential Investment Management, Inc.	439,956	500,731
Putnam Advisory Company, L.L.C.	1,249,784	971,850

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Investment Manager/Account	FY11	FY10
Ranger Investment Management	\$0	\$72,860
RhumbLine Advisers, L.P.	180,932	127,342
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	1,329,465	1,227,062
RLJ Lodging Fund II, L.P.	533,007	610,108
RLJ Lodging Fund III, L.P.	485,392	625,000
Robeco Boston Partners Asset Management, L.P.	1,019,991	967,568
Schroder Commodity Offshore Portfolio, L.L.P.	1,853,483	1,306,276
SCP Private Equity Partners II, L.P.	796,730	935,599
Shasta Ventures, L.P.	4,154,514	0
Silver Lake Partners III, L.P.	622,196	1,052,524
StarVest Partners, L.P.	250,000	300,000
State Street Bank and Trust Company (Custody)	200,000	235,065
State Street Global Advisors	94,552	729,760
Stone Point Capital Trident V, L.P.	1,077,271	0
Strategic Global Advisors	49,074	0
SW Pelham Fund II, L.P.	92,626	365,625
T. Rowe Price Associates, Inc.	3,594,133	3,500,373
Taplin, Canida & Habacht	510,161	604,525
Technology Crossover Ventures VII, L.P.	786,617	1,093,462
Thayer Equity Investors V, L.P.	159,872	395,470
Thayer Hotel Investors IV, L.P.	183,142	90,988
Thompson, Siegel & Walmsley, Inc.	427,136	1,290,579
TPG Partners VI, L.P.	1,217,790	1,408,193
Trilantic Capital Partners III, L.P.	214,917	295,136
Trilantic Capital Partners IV, L.P.	571,987	571,987
Trilogy Global Advisors, L.L.C.	1,311,811	1,142,673
Turner Investment Partners, Inc.	1,823,081	2,082,745
Tygh Capital Management, Inc.	479,247	1,474,442
VantagePoint Venture Partners 2006, L.P.	1,295,496	972,953
VantagePoint Venture Partners IV, L.P.	0	255,095
Veritas Capital Fund IV, L.P.	216,339	0
Vicente Capital Partners Growth Equity Fund, L.P.	300,000	300,000
Vista Equity Partners III, L.P.	570,546	688,224
VSS Communications Partners IV, L.P.	658,068	850,842
Walton Street Real Estate Fund IV, L.P.	687,631	805,505
Walton Street Real Estate Fund VI, L.P.	812,211	484,725
Warburg Pincus International Partners, L.P.	442,046	1,045,441
Warburg Pincus Private Equity IX, L.P.	1,430,963	4,372,416
Warburg Pincus Private Equity X, L.P.	3,303,398	3,748,177
Wellington Management Company Diversified Inflation Hedges Portfolio, L.L.C.	5,026,566	4,458,075
Wellington Management Company, L.P.	1,159,914	1,134,716
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	520,144	484,635
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	303,267	264,186
Western Asset Management Company	181,033	354,796
William Blair Mezzanine Capital Fund III, L.P.	142,940	139,235
WPG Corporate Development Associates V, L.P.	9,025	10,682
WPG Enterprise Fund II, L.P.	25,539	56,151
WPG Enterprise Fund III, L.P.	134,998	135,727
Total Fees Paid by TRS	<u>\$188,274,897</u>	<u>\$181,928,252</u>

Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.