



## State Universities Retirement System Investment Update

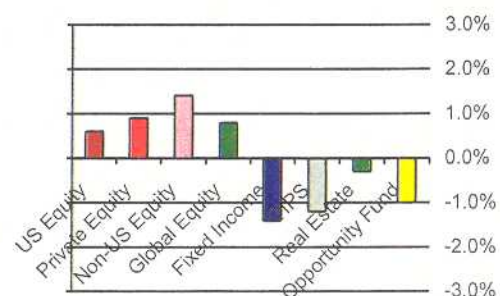
August 22, 2007  
Volume 17, Issue 12

	June 2007	Quarter Ended	Fiscal Y-T-D	1 Year Ended <sup>1</sup>	3 Years Ended <sup>1</sup>	5 Years Ended <sup>1</sup>	10 Years Ended <sup>1</sup>
<b>SURS TOTAL FUND</b>	-0.6%	4.3%	18.3%	18.3%	13.4%	11.9%	8.5%
Market Goal / Policy Portfolio	-0.7%	3.8%	17.6%	17.6%	13.2%	11.9%	8.2%
Public Funds Index	-0.6%	4.4%	17.2%	17.2%	12.8%	11.4%	8.3%
<b>EQUITIES</b>							
U.S. Equity Portfolio	-1.6%	5.9%	19.8%	19.8%	12.2%	11.6%	7.4%
Performance Benchmark	-1.6%	6.1%	20.5%	20.5%	12.7%	12.0%	7.7%
Private Equity Portfolio	5.0%	5.0%	25.7%	25.7%	20.6%	12.1%	26.4%
Performance Benchmark	2.7%	2.7%	16.3%	16.3%	16.0%	12.7%	13.7%
Non-U.S. Equity Portfolio	0.6%	8.1%	29.2%	29.2%	24.2%	19.1%	7.7%
Performance Benchmark	0.8%	8.2%	29.6%	29.6%	24.5%	19.5%	8.3%
Global Equity Portfolio	-0.6%	6.7%	20.5%	20.5%	15.3%	12.3%	12.3%
Performance Benchmark	-0.8%	6.5%	23.6%	23.6%	16.7%	12.2%	12.2%
<b>FIXED INCOME</b>							
Core / Core Plus	-0.2%	-0.6%	6.0%	6.0%	4.6%	5.4%	6.6%
Performance Benchmark	-0.3%	-0.5%	6.1%	6.1%	4.4%	5.1%	6.3%
TIPS	-0.2%	-0.8%	3.9%	3.9%	3.3%	5.6%	7.1%
Performance Benchmark	-0.2%	-0.8%	4.0%	4.0%	3.2%	5.3%	6.6%
<b>REAL ESTATE</b>							
Direct Real Estate	2.5%	2.5%	18.5%	18.5%	13.4%	13.4%	13.4%
Performance Benchmark	3.8%	3.8%	15.6%	15.6%	19.3%	19.3%	19.3%
RE Invest Trust Secur (REITS)	-8.8%	-8.5%	13.3%	13.3%	22.6%	20.2%	22.0%
Performance Benchmark	-8.9%	-8.6%	12.6%	12.6%	22.6%	19.6%	21.1%
<b>Opportunity Fund</b>							
SURS	-0.6%	6.2%	16.4%	16.4%	12.5%	11.9%	11.3%
Performance Benchmark	-0.9%	3.7%	15.2%	15.2%	13.4%	12.1%	11.3%

U.S. Equity Benchmark –Wilshire 5000 Index; Private Benchmark –Wilshire 5000 Index +500 bp (reported quarterly in arrears); Non-U.S. Equity Benchmark –MSCI All Country World Ex-U.S. Index; Global Equity Benchmark –MSCI World Index; Core Fixed Income Benchmark –Lehman Brothers Aggregate Bond Index; TIPS Benchmark –Lehman Brothers U.S. TIPS Index; Direct Real Estate Benchmark –NCREIF ODCE Index (reported quarterly in arrears); U.S. Real Estate Investment Trust Securities Benchmark –Wilshire Real Estate Securities Index; Global Real Estate Investment Trust Securities Benchmark –FTSE EPRA /NAREIT Global Real Estate Index; Opportunity Fund Benchmark –Blended combination of the individual portfolio benchmarks. <sup>1</sup> or since inception, whichever is less.

**Actual v. Policy Deviation  
As of June 30, 2007**

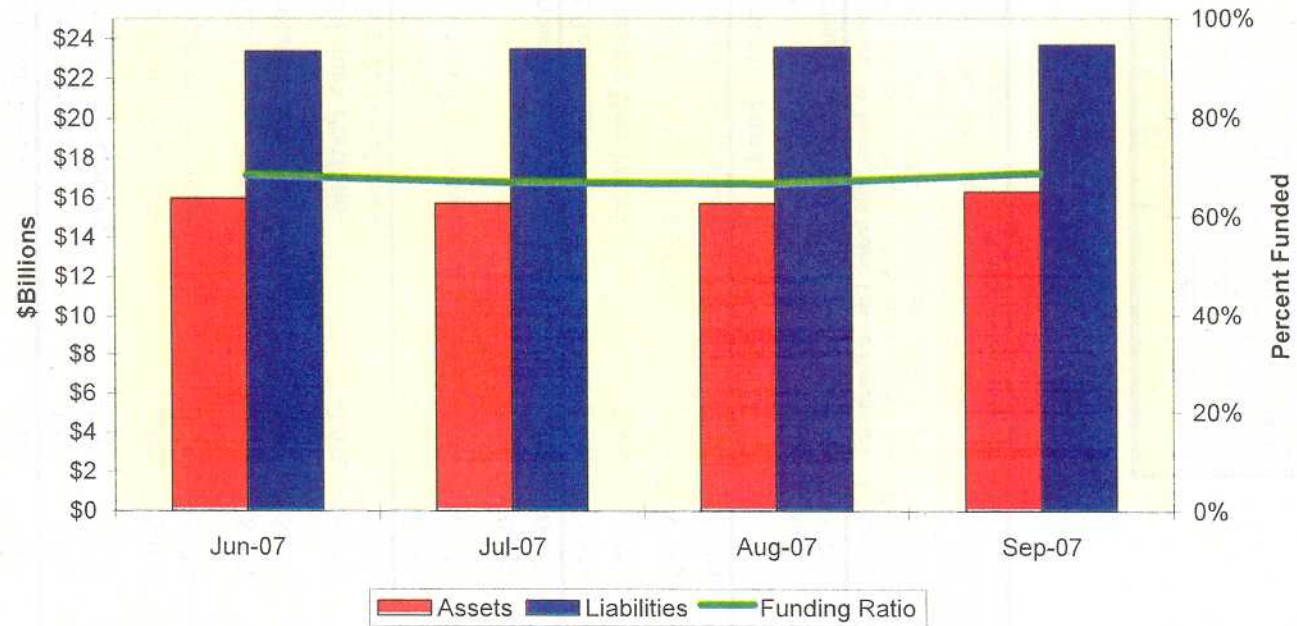
	\$'s (in millions)	Actual %	Strategic Target %
U.S. Equity	\$ 5,953	37.1%	36.5%
Private Equity	946	5.9%	5.0%
Non-U.S. Equity	3,198	19.9%	18.5%
Global Equity	934	5.8%	5.0%
Fixed Income	3,149	19.6%	21.0%
TIPS	617	3.8%	5.0%
Opportunity Fund	326	2.0%	3.0%
Real Estate	914	5.7%	6.0%
Total Fund	\$ 16,037	100.0%	100.0%



STATE UNIVERSITIES RETIREMENT SYSTEM

**SURS Funding Status  
Fiscal Year-to-Date Results**

SURS



	Assets	Estimated Liabilities	Funding Ratio	Rate of Return	
				Month	FYTD
Jun-07	\$ 15.99	\$ 23.36	68.4%		
Jul-07	15.73	23.46	67.0%	-1.3%	-1.3%
Aug-07	15.72	23.56	66.7%	0.5%	-0.8%
Sep-07	16.29	23.66	68.8%	3.9%	3.0%

Note: Assets and liabilities are estimated and unaudited through September 30, 2007.

## SURS in Brief

### Who are the people who participate in SURS?

- 82,000 active and 75,000 inactive participants
- 43,000 benefit recipients
- 50% academic
- 50% staff
- 64% earn \$50,000 or less per year
- 68 different employers across the state

### What sort of benefits do SURS retirees receive?

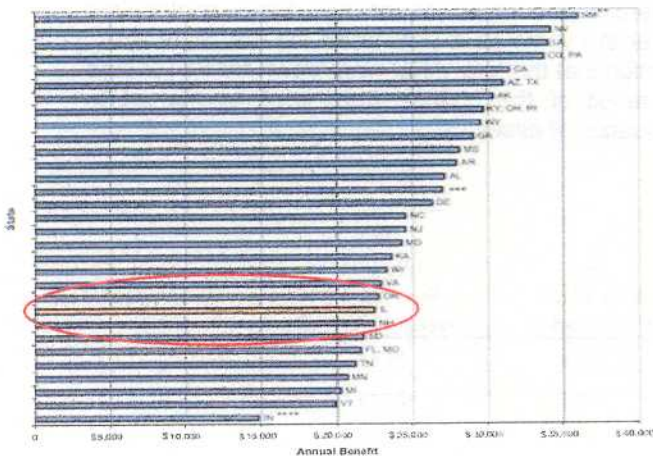
68% of SURS benefit recipients receive \$2,600 or less per month.

78% of retirees live in Illinois

**No Social Security** – The state does not contribute to Social Security on their behalf.

### Benefits are not overly generous

Estimated State Employee Defined Pension Benefits \*



\* Figures based on the assumption of a regular state employee in a non-hazardous job title with actual average compensation of \$33,000 (subject to a cap of \$40,000 after 30 years of service).  
 \*\* Iowa (IA) has a benefit factor of 1.6% (with a maximum annual benefit of \$20,000) but annual benefits are limited by a ceiling of \$14,000 (with a maximum benefit of \$14,000).  
 \*\*\* CT, HI, MD, DE, VA, MI, NY, ND, RI, OH, UT, WA, WY. These states use a benefit factor of 1.1% (plus a credit service credit) as the final pension percentage for defined benefit calculations.  
 \*\*\*\* In 1998, Indiana allowed workers to invest in a defined contribution plan to add to their defined benefit.

Source: IOC, Fiscal Focus, January 2007

### What does it cost to pay for the SURS benefits?

- FY 2008 – 9.94% of pay
- Private sector employers contribute 6.2% of pay for Social Security for their employees.
- Cost of SURS is equivalent to a private sector employer providing approx. 3.7% of employee pay into a retirement plan.



### What has SURS' investment return been?

The investment return for fiscal year 2007 was **18.3%**.  
 Fiscal year to date through August 2007 is -0.8%.

	7/07	FY to date	1 yr ended 7/07	3 yrs ended ...	5 yrs ended ...	10 yrs ended ...
<b>SURS</b>	-1.3%	-1.3%	15.8%	13.6%	12.8%	7.8%
<b>Bench mark</b>	-1.5%	-1.5%	15.1%	13.4%	12.8%	7.5%
<b>Public Funds Index</b>	-1.5%	-1.5%	14.9%	13.0%	12.3%	7.7%

The benchmark is the combined return of the indices by which SURS judges its managers' performance. The Public Funds Index is the average return of a universe of SURS' peers. All returns shown are net of fees.

### SURS' current investment allocation is:

	\$'s (in millions)	Actual %	Strategic Target %
U.S. Equity	\$ 5,753	36.5%	36.5%
Private Equity	930	5.9%	5.0%
Non-U.S. Equity	3,094	19.6%	18.5%
Global Equity	920	5.8%	5.0%
Fixed Income	3,226	20.5%	21.0%
TIPS	643	4.1%	5.0%
Opportunity Fund	318	2.0%	3.0%
Real Estate	886	5.6%	6.0%
<b>Total Fund</b>	<b>\$ 15,770</b>	<b>100.0%</b>	<b>100.0%</b>

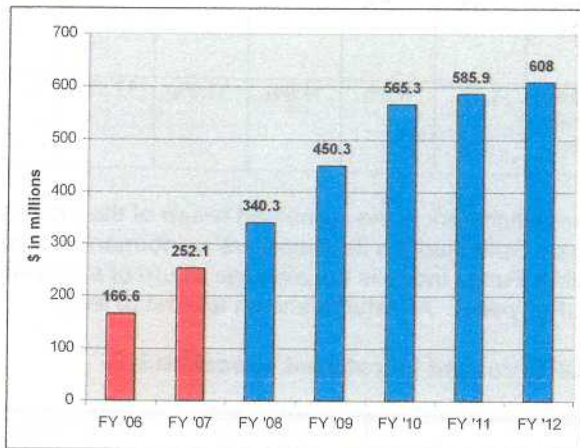
- 37 direct investment managers, of which 20 are minority-owned or female-owned
- 27 indirect investment managers, all of which are minority-owned or female-owned
- Minority-owned and female-owned investment managers invest 14.1% of the system's total assets
- 38.8% passively managed – market exposure at very low cost

### Information about SURS' funding

As of the end of June 2007, SURS estimated funding ratio is **68.4%**.

### Required state contributions under current law

The chart below shows the funding pattern assuming the State maintains the 50-year funding program established by P.A. 88-593. The numbers shown in this chart are net of the amounts anticipated to be received from federal and trust funds.



### Normal cost

The estimated employer normal cost (DB plan only) for fiscal year 2008 is \$318.3 million.

### Net State ARC

Payment of the normal cost only does not pay any portion of the unfunded accrued actuarial liability (UAAL). Standard pension funding as established by the Governmental Accounting Standards Board Statements No. 25 and 27, called the "annual required contribution" or "ARC", requires payment by the employer of the total normal cost for the fiscal year, plus an amount sufficient to amortize the UAAL over 30 years. The net State ARC for FY 2008 is approximately \$715.4 million. The state contribution as a percent of net State ARC will be approximately 47.6%.

The chart at the bottom of this page provides an interesting comparison of the State contribution over the years as a percent of the net State ARC. Notice that the total ARC went down for FY1998 as a result of the change from book to market in valuation of assets.

Fiscal Year	(1) Total ARC*	(2) Member Contributions	(3) (1) - (2) Net State ARC	(4) Actual State Contribution	(5) (4) / (3) State Cont. as Percent of Net ARC
1994	\$706.8	\$183.1	\$523.7	\$ 133.8	25.55 %
1995	739.5	185.9	553.6	128.1	23.14
1996	787.1	197.0	590.1	147.4	24.97
1997	634.8	202.2	432.6	182.0	42.08
1998 **	512.1	221.7	290.4	227.8	78.44
1999	509.2	213.0	296.2	237.9	80.32
2000	547.8	222.5	325.3	241.1	74.11
2001	548.1	221.6	326.5	247.1	75.69
2002	686.9	251.6	435.3	256.1	58.84
2003	843.8	246.3	597.5	285.3	47.74
2004	934.8	243.8	691.0	1,757.5	254.36
2005	859.7	251.9	607.8	285.4	46.96
2006	914.9	252.9	662.0	180.0	27.19
2007	968.3	262.4	705.9	261.1	36.99
2008	971.6				

\* ARC - Annual Required Contribution as defined in GASB Statements No. 25 and 27