



**UNIVERSITY OF WISCONSIN SYSTEM
TRUST FUNDS**

**Quarterly Investment Review
June 30, 2009**

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**SECTION 1:
MARKET OVERVIEW**

Quote for the Quarter

“Getting the big picture right is everything. One or two good ideas a year are enough. Very hard work gets in the way of thinking.”

Jeremy Grantham, Chairman and Chief Investment Strategist, GMO LLC

MARKET OVERVIEW

Major Geopolitical Developments

The Middle East and Iran

Iraq remained fairly subdued for most of this period. However, violence did tick upward towards the end of June as the pullout of American troops from Iraqi cities loomed. Although Prime Minister Maliki hailed the pullout as an Iraqi victory, the risk of renewed insurgent and sectarian violence remains.

Iran, on the other hand, was perhaps the hottest of geopolitical hotspots. The period began with some optimism, as Iran’s president said he would be willing to build a new relationship with the U.S. and seek an end to the nuclear weapons impasse. However, in late May, Iran test fired a sophisticated missile that is capable of striking Israel and parts of Western Europe. *The New York Times* noted that this added “to concerns that Iran’s weapons-development program is fast outpacing the American-led diplomacy that President Obama has said he will let play out through the end of the year.” Meanwhile, a speech by Ahmadinejad, at a UN conference on racism in which he declared Israel to be the most racist and repressive of states, raised tensions between the two nations. And Iran once again warned Israel against attacking its nuclear sites. The biggest development in Iran, however, was the presidential election held in mid-June. Following a contentious and rancorous campaign, largely between President Ahmadinejad and the principal opposition and reformist candidate Moussavi, the incumbent was re-elected in a much-disputed vote. The last unofficial poll just before the election showed Moussavi with 54% support and Ahmadinejad with just 39%; the voting results reported, however, gave the election to Ahmadinejad by a landslide. Huge and violent protests ensued, showing the world that many, many Iranians do not support their Islamic theocracy and seek true democratic and economic reforms. These events also showcased the true repressiveness of the current regime and the fact that there are significant divisions among the religious elites themselves.

Regarding the Israeli/Palestinian dilemma, there were some interesting verbal exchanges but little substantive progress. In late April, Palestinian President Abbas dismissed calls to recognize Israel as a Jewish state and ruled out talks if settlement building continues. And in late May, Israeli Prime Minister Netanyahu insisted that all of Jerusalem will remain under Israeli sovereignty. Then in mid-June, following Obama’s Cairo speech (discussed later), Netanyahu made a significant speech in which he endorsed for the first time the principle of a Palestinian state alongside Israel, but only on the conditions that the state is demilitarized and, again, that the Palestinians recognize Israel as a Jewish state. Netanyahu also rejected U.S. demands for a complete freeze on settlements in the West Bank. The Palestinians, in turn, rejected the entire “package” as a non-starter.

Elsewhere in the region, the U.S. continued its overtures with Syria. In late June, president Obama decided to send an ambassador there after a four-year hiatus. Many analysts see this as a way to counter Iranian influence in the area. And in neighboring Lebanon, an important election yielded surprising results. An American-backed coalition retained control of Parliament. Most analysts had predicted that the Syria-Iranian aligned opposition, which includes the powerful Hezbollah, would win handily. And although commentators noted that there were many domestic reasons for the strong support for the American-backed coalition, known as the “March 14 coalition,” some political analysts also attributed it in part to Obama’s Cairo speech and his campaign of outreach to the Arab and Muslim worlds.

Europe and Russia

In mid-June, Putin said that Russia is willing to abandon nuclear weapons if the U.S. and all other nuclear-armed countries do the same. This obviously was a response to President Obama’s earlier call for a global arms-control program, discussed later.

Africa, Asia and the Indian Sub-Continent

North Korea continued to confound and trouble the rest of the world. In early April, Pyongyang launched another rocket. The U.S. said Korea “broke the rules,” Japan called it “a serious act of provocation,” and the UN Security Council held an emergency session to debate a response. Then in late May, North Korea claimed that it conducted its second nuclear test. The U.S. responded by suggesting it would lead an operation to stop Korea’s trafficking of weapons of mass destruction by interdicting suspected sea and air shipments; South Korea said it would join this effort, raising tensions once again between North and South. Meanwhile, the North sentenced two American journalists accused of spying to 12 years of hard labor. The period ended with the UN passing a resolution imposing sanctions against North Korea, including a call upon UN members to inspect cargo vessels and airplanes suspected of carrying military material in or out of the country. Apparently, however, these steps are recommendations rather than requirements of member nations. Importantly, while attempting to blunt some of the pain potentially inflicted, China and Russia, the closest thing the North has to friends, agreed to a mixture of financial and trade restrictions designed to choke off military development according to *The New York Times*.

In Pakistan, it appeared that operatives of Al Qaeda were continuing a strategy to sow chaos in that country and strengthen the militant Islamist groups there. A former CIA analyst provided this comment: “They smell blood, and they are intoxicated by the idea of a jihadist takeover in Pakistan.” So Pakistan remains a shaky and serious concern. As many have noted, it is not just Afghanistan that is the problem, it is Afghanistan/Pakistan. And to add to the concerns, it was reported during this period that members of the U.S. Congress had been told in confidential briefings that Pakistan is rapidly adding to its nuclear arsenal. At least there have been reports that many ordinary Pakistanis have been turning against the Taliban, after experiencing months of cruelties, broken promises and attacks.

In India, their Congress Party began working on the formation of a new coalition government following its strong election victory. *The New York Times* noted, “The victory gives a decisive mandate to Prime Minister Manmohan Singh and raises hopes that an important engine of the developing world will continue on a path of economic reforms.”

In Africa, Somalia continues to pose problems that could reverberate beyond its own borders. The transitional, moderate Islamist government is fighting for its survival against several other factions, the strongest of which is the Shabab, a radical, militant Islamist group. This militia espouses the Wahhabi version of Islam, as does the group that guides them – Al Qaeda, according to U.S. analysts.

The Americas

In early April, following on the heels of another North Korean rocket launch, President Obama unveiled an ambitious arms-control campaign. The President’s aim is to drastically reduce nuclear weapons globally while recognizing developing nations’ rights to pursue nuclear power generation. And regarding American weapons programs, also of interest was the Pentagon’s unveiling of new weapons priorities. Priorities now seem to be shifting away from high-tech weapons and vehicles (such as more advanced fighter aircraft) designed for conventional wars with major powers and toward lower-tech weapons and unmanned drones designed more for unconventional conflicts.

In late April, the Americas summit took place, where South, Central and North American politicians gathered to confer. *The New York Times* noted that, “Obama used the 3-day summit to express a tone of openness from the U.S. resulting in positive responses from Cuba’s Raul Castro and Venezuela’s Hugo Chavez. Still, it was far from clear whether the meeting would augur improved relations with Washington or just a smooth patch in a long and often unfriendly road.” A month-later, one resulting initiative developed as the Obama administration proposed high-level meetings with Havana on migration between the two countries.

One of the most interesting developments having global political consequences was U.S. President Obama’s June 4 Cairo speech, which has been previously alluded to. *The New York Times* made the following observations: “In opening a bold overture to the Islamic world..., President Obama confronted frictions between Muslims and the West, but he reserved some of his bluntest words for Israel, as he expressed sympathy for the Palestinians and what he called the ‘daily humiliations, large and small, that come with occupation.... Mr. Obama’s speech in Cairo..., was perhaps the riskiest of his presidency, as he used unusually direct language to call for a fresh look at deep divisions, both those between Israel and its neighbors and between the Islamic world and the West. Among his messages was a call for Americans and Muslims to abandon their mutual suspicions and do more to confront violent extremism.”

The Environment

In early April, it was reported that Arctic sea ice is continuing a decade-long decline and that the Arctic ice cap itself is thinning. Later in the month, the EPA itself stated that greenhouse gases “threaten the planet.” *The New York Times* commented that, “[t]he decision lays the groundwork for efforts to cap carbon emissions, at a potential cost of billions to companies and the government.... The declaration [also] moves the U.S. closer to the EU nations, which are pushing for a new treaty on climate change.” Apparently, a climate change summit is scheduled for later this year in Copenhagen. A major concern continues to be that the two nations responsible for some 40% of greenhouse gas emissions – China and the U.S. – will resist committing to serious reductions once again. It was noted in early June that a team of American advisors would be arriving in Beijing for climate talks, and that the U.S. and China were seeking a “truce” in their exchange of demands and war of words. And at the very end of the quarter, the U.S. House passed its first ever bill addressing climate change by a vote of 219 to 212. However, it was noted that the bill proposes emissions targets that are far short of what China and other countries are expecting of the U.S. Still, these developments indicate some progress.

Major Economic Developments

Economic Growth and Employment

Even early in the 2nd quarter, many economists and analysts began suggesting that major economies were showing signs of improvement signaling that their recessions (as measured by growth in output or GDP) would soon be coming to an end. And although there continued to be some mixed signals throughout the rest of the quarter, by and large, optimism for an economic recovery seemed to intensify. But, importantly, virtually all commentators, politicians, and economists warned that resumed economic growth will remain subdued and below trend and that unemployment will remain higher than “normal” for some time to come. Unemployment in both the U.S. and Eurozone hovered at around 9.5% at quarter end, and many economists (including the U.S. Congressional Budget Office, or “CBO”) projected that joblessness will continue to climb well into the second half of 2010. The CBO expects U.S. unemployment to peak at 10.5%.

Inflation

Inflation continued to be well-contained, as is generally expected during a recession. Unused capacity in the global economy, in both the labor markets and manufacturing, is largely responsible for the cost containment. And having averted depression, significant and damaging deflation looks less and less likely. However, concerns continued to be voiced that the massive amounts of government economic stimulus, including simply low current interest rates, will fuel significant inflation in the future if not withdrawn in a responsible and timely fashion.

Oil and Other Commodities

Oil began the 2nd quarter at roughly \$50 a barrel, much closer to the \$32 five-year low reached in late 2008 than the \$145 peak of July 2008. As the quarter progressed and talk about a resumption of economic growth later in the year increased, so too did the price of oil. Oil ended the period at just over \$71 a barrel. Not surprisingly, there was then talk that the price of oil could get ahead of itself in anticipation of renewed demand, choking off the very recovery anticipated. Certainly the newly tamed U.S. consumer could retrench even further in the face of higher prices at the gas pump once again. Gasoline began the year at around \$1.70 a gallon, climbed back to around \$2.70 during the 2nd quarter, and has since remained at roughly that level. Still, it remains a far cry from the nearly \$4 gas witnessed this time last year. Industrial metals also rebounded in price, while precious metals barely moved. Regarding agricultural commodities, depleted stocks of corn and soybeans propelled grain prices upward for much of the period.

Housing

In the two major housing markets for which detailed data is regularly reported, the U.S. and U.K. markets, home prices began to show some early signs of either stabilization or at least a deceleration in price declines. However, there were a couple of developments in the U.S. market that do not bode well for any kind of robust housing recovery in the near term. First, although the Fed’s stimulus efforts to lower short and longer term government interest rates did work to lower mortgage rates early in the period, longer rates began to rise again later in the quarter, threatening to choke off the nascent increase in refinancing and first-time purchase activity. Average 30-year fixed mortgage rates got as low as 4.7% but rose back to some 5.6% during the quarter. Second, falling home prices have put more homes “underwater,” where owners carry mortgage balances greater than the current value of the homes. It was reported in early May, that between 22% and 30% of homeowners are now in this situation. Third, increasing joblessness is leading to further increases in mortgage payment delinquencies and home foreclosures. A *New York Times* article on May 25 offered these comments: “As job losses rise, growing numbers

of American homeowners with once solid credit are falling behind on their mortgages, amplifying a wave of foreclosures. In the latest phase of the nation's real estate disaster, the locus of trouble has shifted from subprime loans – those extended to homebuyers with troubled credit – to the far more numerous prime loans issued to those with decent financial histories.... That could exacerbate bank losses, adding pressure to the financial system and the broader economy. 'We're about to have a big problem,' said Morris A. Davis, a real estate expert at the University of Wisconsin. 'Foreclosures were bad last year? It's going to get worse.' Economists refer to the current surge of foreclosures as the third wave, distinct from the initial spike when speculators gave up property because of plunging real estate prices, and the secondary shock, when borrowers' introductory interest rates expired and were reset higher. 'We're right in the middle of this third wave, and it's intensifying,' said Mark Zandi, chief economist at Moody's Economy.com. 'That loss of jobs and loss of overtime hours and being forced from a full-time to part-time job is resulting in defaults. They're coast to coast.'"

Personal Consumption/Savings and Business Investment

Despite news that U.S. consumers were continuing to retrench in terms of retail sales, there were also indications that consumer confidence was stabilizing. In late May, both the Conference Board's Consumer Research Center and University of Michigan's Consumer Confidence index registered a rebound in confidence, restoring it to a level not seen since September 2008. However, in late June, the ABC consumer confidence index fell again, taking that survey level back towards the lows of February 2009. There was other news of note regarding the U.S. consumer. Regarding consumer loans, it was reported early in the period that delinquencies and defaults had reached record levels in the 4th quarter of 2008: 4.2% were delinquent and another 4% were in default. And whether it was due primarily to consumers or lenders scaling back, the Federal Reserve also reported that new consumer borrowing was dropping steeply. For example, while analysts had projected a decline of only \$1 billion for February, consumer credit fell by almost \$8 billion, the biggest decline since 1968. And in March, economists projected a \$3.5 billion drop, but borrowing declined by another \$11 billion, the biggest decrease since 1943. On the flip side, the personal savings rate in the U.S. – negative not long ago – has risen to over 5% of disposable income, its highest level in some 14 years. Some commentators have suggested that it will reach as high as 10% in 2010. This of course could prolong the recession or moderate economic growth in the shorter term, but it will certainly strengthen the balance sheets of American households.

There were a couple of other interesting consumer-related issues mentioned this period. First, it was noted that the U.S. auto industry is fretting over whether Americans will give up their age-old "new car habit." It already seems evident that many Americans are making due with cars they have, and many wonder what the "new normal" will be when the recession ends. Second, it was reported that a key consumer non-durable goods producer, Procter & Gamble, is increasing its offering of lower-priced goods, a major shift away from its focus on increasingly sophisticated and costly household staples. Perhaps, these are all part of the "great re-set."

And while the Euro-zone overall reported continued declines in retail sales, some Euro countries continued to spend. For instance, German and French consumers seemed undeterred by the recession, and it was noted that this could be due partly to government policies that encourage employers to keep workers and reduce labor costs in other ways, such as reduced hours.

Finally, there were several reports that business investment is beginning to rebound. For instance, non-defense capital goods orders are now on the rise. Also, R&D spending has held up quite well even through the thick of the recession. Apparently, businesses are more concerned about not losing any technological competitive edges coming out of this recession compared to some past recessions.

The Financial System, Credit and Liquidity

Although evidence mounted that a global financial system meltdown (and economic depression) has indeed been averted, there continued to be mixed signals about credit conditions and the future health of the banking sector. Projections of total loan losses crept higher. Early in the quarter, the IMF estimated that global financial institutions had racked up \$4 trillion in troubled loans, some \$3.1 trillion in the U.S. and \$900 billion in Europe and Asia.

In the U.S., concerns about commercial real estate loans grew, and it was noted that big loan losses here could threaten the existence of many small- to mid-sized banks. Furthermore, in late May, the FDIC warned that the number of "problem banks" would continue to increase. At that time, it stated that about one-fifth of the 8,200 FDIC-insured banks were "in trouble." Also reported was the fact that the collective net 1st quarter profit of these banks plunged 60% year over year. FDIC Chairwoman Sheila Bair said, "The first quarter results are telling us that the banking industry still faces tremendous challenges and that, going forward, asset quality remains a major concern. Bank failures continued to mount, and they will continue to do so." The FDIC also indicated that it was weighing the possible imposition of a one-time fee to replenish its deposit insurance fund, a fee which would hit big

banks the hardest. Meanwhile, the U.S. Congress moved to allow the FDIC to borrow as much as \$100 billion and extend its deposit insurance limit of \$250,000 (from the long-standing \$100,000 level) through 2013.

Given these on-going challenges with existing loans and other asset quality, it is not surprising that, counter to governments' prodding to expand new credit, banks in most developed countries continued to tighten credit standards and reduce credit extension during the second quarter. There were other negative developments too. The credit rating agencies (not that their rating ability is unquestioned!) began warning that the sovereign debt of some developed economies could be downgraded from their heretofore solid AAA status due to exploding budget deficits. Warnings issued in the 2nd quarter involved the U.K., Austria, and much of the Asian-Pacific region. Ireland's debt was in fact downgraded, by S&P, from AA+ to AA. There were even rumblings about the credit rating of U.S. debt in late May, sending the price of Treasuries plunging and prompting Treasury Secretary Geithner to pledge that the U.S.'s deficit would be expeditiously reduced in the near future. Also, early in the period, Moody's assigned a negative outlook on the creditworthiness of every local government in the U.S., marking the first time the rating agency has made such a blanket assessment. The securitization market (i.e., the re-packaging of loans into securities having different risk/return and cash flow characteristics than the underlying loans) also remained moribund, prompting the Federal Reserve to rollout a potentially \$1 trillion plan to resuscitate it (this is the "TALF" program, discussed more in the next section). Although the securitization of some markets (namely, sub-prime mortgages) helped to initiate the entire mess we are in, Fed Chairman Bernanke noted that "[t]he closing of securitization markets has added considerably to the stress in credit markets and financial institutions generally."

But there were positive developments as well. For one, corporate bond issuance was quite strong during the quarter, as investors became increasingly receptive to re-embracing some risk in exchange for almost equity-like fixed returns. In Europe, where even large companies traditionally rely heavily on bank debt, both investment-grade and high-yield bond issuance was especially strong, as bankers told companies to go elsewhere for financing. Another positive was the further narrowing of the "TED spread" (the yield spread between LIBOR and U.S. T-bills), indicating that credit concerns among and between financial institutions themselves were abating. Finally, results of the "stress tests" of major U.S. banks, while sobering, were not as bad as many feared. *The Wall Street Journal* noted the following: "Investors seem comforted with the increased transparency. The estimates of bank losses under adverse scenarios appeared realistic, which boosted the credibility of the entire exercise."

Interest Rates and Other Central Bank/Governmental Activities

With most developed economies already at short-term interest rates of near zero, few could take further action on this front. The European Central Bank (ECB) was able to lower rates in two additional 0.25% increments during the quarter, leaving their benchmark rate at 1%. The Bank of England (BOE) and the U.S. Federal Reserve both held steady, at 0.5% and a range of 0% to 0.25%, respectively. Meanwhile, only one of the major (BRIC) developing economies, Brazil, cut its rate further, in this case by one percentage point to a historic low of 9.25%.

Governments of some developed economies (e.g., the U.S. and U.K.) also continued programs designed to keep longer-term interest rates low and increase domestic monetary supplies. For the most part, this took the form of governments purchasing large sums of their own longer-term debt (so-called "quantitative easing"). Others (e.g., the ECB for the Euro-zone) took the route of further injections of liquidity directly into banks. Once again, Germany's Merkel strongly criticized all these actions, suggesting they are fiscally irresponsible and will contribute to the next crisis. Also, efforts to help banks further unload distressed assets and re-stimulate asset-backed securitization markets continued, primarily in the U.S. through the TARP, TALF and PPIP programs.

Good old-fashioned fiscal stimulus programs – increased government spending to take up private sector slack – also continued to unfold, were expanded, or were newly introduced. Early in the quarter, Russia announced a stimulus program of over \$100 billion, while Japan rolled out a program of similar dollar value, which represents over 2% of that country's GDP (by comparison, the U.S.'s program is expected to total some \$800 billion, representing some 3% of GDP).

Another major development in the U.S., was the formal filing for bankruptcy by automakers Chrysler and GM, the latter "marking the humbling of an American icon that once dominated the industry," as the *Wall Street Journal* noted. The Chrysler bankruptcy will result in an expeditious sale of most of that company's assets to a newly created group headed by Fiat. The huge GM bankruptcy, however, as with the previous "bailouts" of banks and AIG, will involve direct government/taxpayer capital injections. Under the restructuring plan, current shareholders will be virtually wiped out, the UAW retiree health care fund will become a 20% owner, the U.S. government's roughly \$30 billion injection will give it 60% ownership, and Canada's \$9.5 billion injection will result in a 12% stake.

But expanding government fiscal and monetary measures, leading to ballooning budget deficits, began to worry many observers and investors. In the U.S., it was noted that for the full 2009 fiscal year, the deficit is projected to

be around \$1.8 trillion, or close to 13% of GDP. This represents the biggest budget shortfall since 1945. Furthermore, this deficit will add to the current total national debt of some \$11 trillion. The Congressional Budget Office estimated that net government debt will rise to 65% of GDP at the end of fiscal 2010, up from 41% at the end of fiscal 2008. Fed Chairman Bernanke did stress in remarks to Congress, that it is imperative the U.S. begins to develop a plan to restore fiscal balance. In the EU, eight of the 16 Euro-zone countries received formal warnings from the EU Commission about their exploding deficits, which will violate current EU rules that annual deficits be limited to 3% of GDP. For example, conservative Germany's current year deficit is expected to be almost 4% of GDP, and it is expected to rise to nearly 6% next year. Investors responded to these concerns by selling more sovereign debt, raising government bond yields, and thwarting government efforts to keep yields low.

As mentioned earlier, bank "stress tests" were conducted in the U.S. And although it was noted in early May that ten of the 19 large banks involved would need to boost their capital levels (these included Bank of America, Citigroup, and Wells Fargo), by late May, it was noted that all ten of banks were well on their way to plugging their combined \$75 billion capital shortfall by issuing common stock and notes to a receptive investor base. Even more hopeful were indications in June that other more healthy large banks which had received loans from the \$700 billion TARP program were applying to repay those loans. By mid-June, it was reported that the U.S. Treasury expected to receive at least \$50 billion from banks approved for exiting TARP.

Finally, national and even global-level regulatory reform continued to be a hotly debated topic. An article in *The Economist* stated the following: "The financial system does not need to be put under some form of worldwide draconian re-regulation. Improved rules and smarter regulators would get the system on its feet and stabilized. And when that is not enough, higher capitalization for banks and other financial institutions would provide a margin of safety." In the U.S., multiple ideas were thrown around, each with proponents and detractors. While the U.S. Treasury initially pressed for the creation of a single independent regulator of systemic risk, the SEC suggested bringing together various existing regulators into a "systemic risk-monitoring council." The SEC warned that a separate, independent systemic risk regulator would undercut the SEC's position as the principal regulator of capital markets. And the Obama administration indicated its strong support for the creation of a new financial watchdog responsible for protecting consumers when they use a variety of financial products, from mortgages to mutual funds to credit cards. Then, near the end of the quarter, the U.S. administration released its overall proposal for regulatory reform. Key elements of the proposal were the following: enhance powers of the Fed to oversee the biggest financial players; give the government the power to seize, unwind, and/or break up systemically important firms; implement more regulation of derivatives and other parts of the market "infrastructure;" create a new regulator for consumer-oriented financial products; and coordinate new policies with foreign regulatory bodies. While this proposal may now look quite sweeping and far-reaching, it actually reflects a scaling back from earlier plans. *The Washington Post* provided these comments: "The financial-reform proposal presented to the U.S. by President Barack Obama has little in common with the vast reshaping of the regulatory framework that administration officials talked about at the beginning of the year. The administration chose, instead, to put all of its energy behind a few crucial changes that it thinks are essential to saving the U.S. from another destructive financial crisis. Most of the new powers would end up in the hands of the Federal Reserve."

Currencies

The U.S. dollar reversed course from its 1st quarter surprise strengthening and began to weaken again relative to other major currencies. During the 1st quarter, the impetus seemed to be expectations that the U.S. would exit its recession earlier than other economies. In the 2nd quarter, the resumed weakening seemed to stem primarily from concerns about the growing budget deficit and future inflation. The falling dollar also prompted some intervention by Asian exporting nations: central banks in Singapore, India, South Korea, Thailand and Taiwan bought U.S. dollars and sold their own currencies. This is an attempt to keep the value of their currencies in check so their exports remain competitive. There was also additional talk by major developing economies suggesting the dollar should no longer be the sole global reserve currency. *The Washington Post* commented on this late in the quarter: "The financial crisis has brought a sense of urgency to the debate over whether the U.S. dollar should play such a dominant role in the world's economy. Brazil, Russia, India and China called for a 'more diversified' international monetary system. If the dollar is ousted as the world's reserve currency, it might raise the cost of government borrowing. But it could also usher in a boom for U.S. exporters by making their products more cost competitive."

Globalization and Trade

The major headlines here seemed to mostly involve China. In the midst of the global recession, China has been willing and able to make moves to enhance its long-term influence and competitiveness. Regarding the globally-challenged auto industry, it was reported that auto sales in China continue showing brisk growth, and that the country is expected to take the place of Japan as the world's biggest automaker this year – all while Detroit's Big Three struggle for their very survival. Also, China's highest-level policymakers committed the country to becoming

a major manufacturer of all-electric and hybrid vehicles within three years, and then building on that achievement to lead the world in electric car and bus production. And following a pattern it set in Africa over the past several years, China worked towards finalizing a series of development deals in Latin America that will boost its influence in the region and guarantee its access to oil, iron ore, soybeans, and an array of other resources and commodities it will need for future growth. A former U.S. Commerce Departmental official said China's loans and investments demonstrate "how the balance of power shifts quietly during times of crisis." Finally, China took some trade-protectionist measures. Policies to boost exports were announced, and a formal "Buy China" rule was introduced requiring all governmental entities to purchase Chinese goods and services wherever possible.

Financial Market Developments and Performance

Growth and High-Yielding Assets

Investors re-embraced virtually all risk assets during the 2nd quarter of 2009 (in fact, the riskier the better), sending their prices soaring. The variety of indicators suggesting that the economy was bottoming out or beginning a rebound generally bolstered investor sentiments and got them off the sidelines. The strong quarterly returns to public markets for risk assets speak for themselves. And the returns registered from year-to-date troughs to June 30, 2009 indicate the strength of this rally even more: +36.9% for the S&P 500 and +45.9% for MSCI EAFE. There was also strong interest in new stock issuance. Dealogic reported that more new stock was issued by existing companies in U.S. markets that at any time since 1995, when it began keeping records. Furthermore, it appears that the IPO window may be re-opening globally. In late June, data from Thomson Reuters showed about 146 IPOs in the global pipeline.

But while public equity markets soared, private equity continued to play catch-up by registering further write-downs. For the 12 months ended June 30, 2009, the returns of public and private equity are now remarkably similar. Regarding venture capital, it was reported that, encouraged by supportive policies in Washington, venture investors have made clean technology the fastest growing segment of the venture capital industry. The Venture Capital (trade) Association, said \$4.1 billion in venture capital money flowed into clean tech last year, an increase of 54% over the previous year. Meanwhile, many other VC funds in the U.S. appeared to be putting fundraising on the back burner. Only 40 funds brought in new money during the 1st quarter, marking the lowest level of VC fundraising in six years. Also, there was more news about the shutdown in large private equity buyouts, as leveraged loans all but disappeared. Nevertheless, buyout activity in Asia began to show signs of springing back to life by the end of the quarter.

In risky debt markets, U.S High Yield kept pace with the strong equity returns, as option-adjusted spreads narrowed from 15.1% (over Treasuries) to 9.5% during the quarter. Emerging market bond yields also fell, as investors began to factor in expectations of continued positive growth in major developing economies.

The table that follows provides recent as well as longer-term performance for asset classes and markets within the general category of higher risk "growth and high-yielding assets," which includes public and private equities and lower-quality, higher-yielding fixed income.

Performance – Periods Ended June 30, 2009

<u>Growth and High-Yielding Assets</u>	2 nd Qtr	Year To Date	1 Year	3 Years	5 Years	10 Years	Risk ¹
U.S. Large Cap Equity (S&P 500)	15.9%	3.2%	-26.2%	-8.2%	-2.2%	-2.2%	16.0%
U.S. Small Cap Equity (Russell 2000)	20.7%	2.6%	-25.0%	-9.9%	-1.7%	2.4%	26.5%
Non-U.S. Equity – Dev Markets (MSCI EAFE)	25.8%	8.4%	-31.0%	-7.5%	2.8%	1.6%	17.7%
Non-U.S. Equity – Emerging Mkts (S&P/IFCI)	36.1%	37.8%	-27.4%	3.4%	15.7%	10.3%	25.0%
Private Equity (Cambridge Private Equity) ²	-3.2%	-18.7%	-24.4%	2.7%	12.0%	9.5%	12.4%
Venture Capital (Cambridge Venture Capital) ²	-2.8%	-15.0%	-17.1%	2.1%	6.5%	8.1%	34.1%
U.S. High Yield (Merrill Lynch High Yield)	23.2%	29.4%	-3.5%	1.8%	4.1%	4.4%	11.0%
Emerging Markets Debt (JP Morgan EM Debt)	10.0%	12.7%	2.4%	6.4%	9.0%	11.2%	10.9%

¹ Risk is measured by the annualized standard deviation of monthly returns over the past ten years.

² Private equity and venture capital returns are for periods ended one quarter earlier.

Event Risk- and Deflation-Hedge Assets

Credit spreads for investment-grade or high-quality debt also narrowed as investor confidence in economic recovery grew. And there continued to be a flood of new issuance in the corporate bond market, with generally all issues being well received. Even spreads on commercial mortgage-backed securities tightened significantly, resulting in a very strong rebound in this hammered asset class. The result was a respectable quarterly return for U.S. Broad Market Bonds.

Conversely, U.S. Treasury yields edged higher throughout the quarter, resulting in falling prices and negative returns for this asset class. And in early June, the 10-year Treasury yield rose to just above 4% for the first time in eight months. Also, the yield curve steepened significantly as measured by the difference in yield between the 2-year and 10-year Treasury, which hit 2.75% in late May, its highest ever. As the Wall Street Journal noted, "Optimists would argue that this is a growth signal while a less rosy view might suggest inflationary expectations or falling confidence in dollar-denominated assets." The yields on 2-year and 10-year Treasuries stood at 1.11% and 3.53% at quarter-end, respectively. The positive quarterly return from Non-U.S. Bonds to U.S. investors came almost entirely from foreign currency appreciation (and dollar weakness) during the quarter.

Ultra-low short-term interest rates in the U.S. continued to provide virtually nothing to holders of "cash." It was reported that many money market funds are showing positive returns only because the investment managers are waiving some of their fees. Finally, Hedge Funds as a whole have apparently held up relatively well (and certainly on a risk-adjusted basis) over shorter and longer-term timeframes.

The following table provides performance data on asset classes and markets falling within the broad category of "event risk- and deflation-hedge assets," which includes high-quality bonds, cash, and hedge funds.

Performance – Periods Ended June 30, 2009

<u>Event Risk- and Deflation-Hedge Assets</u>	2 nd Qtr	Year To Date	1 Year	3 Years	5 Years	10 Years	Risk
U.S. Broad Market Bonds (Barclay's Aggregate)	1.8%	1.9%	6.0%	6.4%	5.0%	6.0%	3.8%
U.S. Treasuries (Citigroup Treasury 1-10 Year)	-2.1%	-2.5%	6.1%	7.0%	4.9%	5.5%	3.4%
Non-U.S. Bonds (JP Morgan Global/Govt)	2.9%	-1.9%	4.8%	7.9%	6.1%	6.5%	6.9%
U.S. Cash (CG 1-month U.S. Treasury Bill)	0.0%	0.1%	0.5%	2.8%	2.9%	2.9%	0.5%
Hedge Funds (MSCI Diversified Hedge Funds)	5.0%	4.8%	-0.5%	5.8%	7.2%	8.6%	5.2%

Real and Inflation-Hedge Assets

U.S. TIPS provide a modestly positive return for the quarter, as investors finally began to focus away from the possibility of depression-induced deflation and toward the growing possibility of deficit-induced inflation. Commodities also rebounded strongly, with the principal movers being energy at +17.3% and industrial metals at +22.3% for the quarter. As with the strong equity returns, it may well be that investors in these commodities are getting a bit carried away in their expectations of renewed economic growth.

Regarding commercial real estate, public markets retained their high correlation to public equity markets and rebounded very strongly for the quarter. Private markets, however, continued their catch-up to public markets and experienced further write-downs in property valuations.

The table that follows presents performance data for asset classes categorized as "real and inflation-hedge assets," which includes Treasury Inflation Protection Securities (TIPS), public and private real estate, timber, and commodities. Inflation, as measured by "headline" CPI which includes energy and food, is also shown.

Performance – Periods Ended June 30, 2009

Real and Inflation-Hedge Assets	2 nd Qtr	Year To Date	1 Year	3 Years	5 Years	10 Years	Risk
U.S. TIPS (Citigroup Inflation Linked)	0.4%	4.7%	-1.3%	5.7%	4.9%	7.2%	5.8%
Commodities (DJ-AIG Futures Index)	11.7%	4.6%	-47.1%	-8.3%	-0.2%	7.2%	17.5%
Private Real Estate (NCREIF Property)	-5.2%	-12.1%	-19.6%	1.0%	7.6%	8.5%	N/A ¹
Public Real Estate (MSCI U.S. REIT)	30.2%	-12.4%	-43.7%	-18.5%	-3.0%	5.3%	24.3%
Timber (NCREIF Timberland)	-1.2%	-0.5%	3.3%	11.5%	13.6%	8.7%	N/A ¹
CPI (Consumer Price Index)	0.8%	1.4%	-1.2%	2.1%	2.6%	2.6%	N/A ¹

¹Due to the infrequency of market-based valuations of these asset classes, standard deviations of monthly returns are not meaningful.

Potential Investment Implications of Current Market and Economic Conditions

The objective of this section is to provide some possible broad, high-level investment implications given the foregoing discussions and assessments of global markets and economics. Given a strong underlying belief in “reversion to the mean” in all things economic (assuming essentially free and competitive capital markets), the value of this exercise is to provide some basis for perceiving current market-level risks and opportunities.

The strong rallies in risk assets during the 2nd quarter, particularly in equities, have left them at nearly “fair price” valuation levels by many measures and according to many analysts. This suggests nearly neutral positioning in equities. However, if the economic recovery disappoints (which seems more probable than unexpected strength at this juncture), another leg down in equity markets may very well ensue. Again, stronger positioning in quality stocks both in U.S. and non-U.S. markets seems warranted.

Credit too has rallied strongly as credit spreads have tightened further, leaving yields over and above paltry Treasury yields much less compelling than they were three to nine months ago. Distressed debt, however, may continue to offer strong opportunistic returns to managers and investors with capabilities in this challenging segment. In pure Treasury space, given somewhat higher yields on the shorter part of the yield curve (e.g., 2-year maturities) and still virtually nothing on “cash,” it may be time to consider stepping out a bit on the curve while keeping duration and interest-rate price sensitivity low.

In regards to inflation-protected assets, although U.S. TIPS now offer paltry real yields of some 1.6% (certainly far short of the 4% to 5% pay-out requirements of most endowments), given the longer-term outlook for higher and less certain inflation in the U.S. and the diversification/correlation benefits of TIPS, a neutral (or strategic, long-term) weighting seems warranted.

Regarding various real assets, commercial real estate, especially within the private market, likely has further to fall given the lagging nature of valuations and returns relative to economic growth. And given the consensus view that renewed economic growth will be below trend for some time, core real estate returns going forward may have to rely even more on the income/rental component and less on appreciation. From a tactical perspective, stepping into core real estate for the first time may not yet be advisable. However, given that there are likely cases of large overcorrection in valuations for some assets (as there has been in all risky asset markets during this financial crisis), “opportunistic” real estate vehicles and strategies may be of much more tactical interest. Also, distressed commercial real estate credit may present some very attractive opportunities, since if bankruptcy ensues, it would be a very cheap way to gain ownership of the underlying asset. In REIT space, the generally more levered nature of these vehicles will likely continue to depress valuations, particularly for REITs with high levels of debt coming due in the near-term. Many such REITs may not survive if they cannot rollover debt or find new financing. Regarding timber, one of our managers involved with the asset class (GMO) is finally beginning to discuss a possible new timber fund, this following several years of no new offerings due to high valuations and poor projected returns.

SECTION 2: FUND OVERVIEWS

FUND OVERVIEWS

Total Trust Fund Assets		
<i>Quarter Ended June 30, 2009</i>		
	<i>As of June 30, 2009</i>	<i>As of March 31, 2009</i>
Long Term Fund	\$ 268,973,144	\$ 247,189,543
Intermediate Term Fund	\$ 66,220,986	\$ 62,718,092
Income Fund	<u>\$ 44,557,211</u>	<u>\$ 45,492,997</u>
	\$ 379,751,341	\$ 355,400,632

Long Term Fund

The change in the net assets of the Long Term Fund is summarized below.

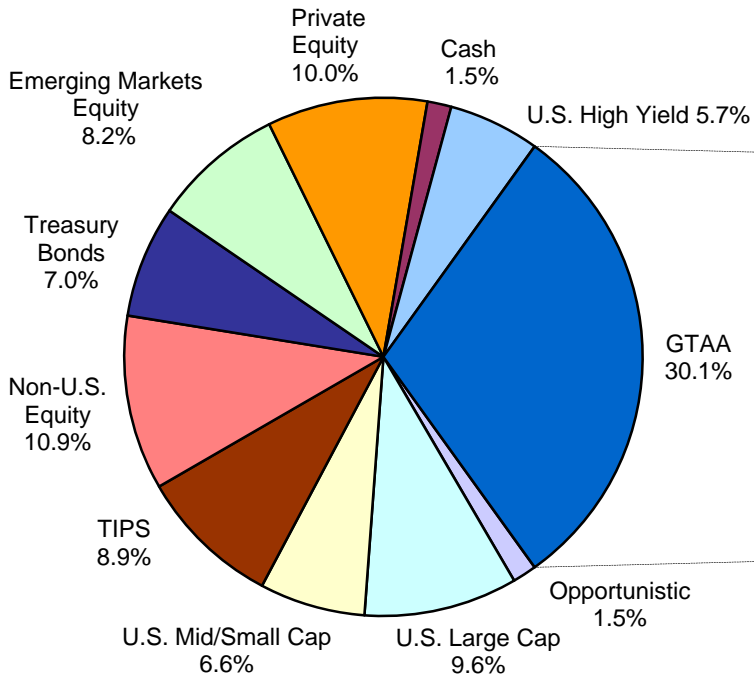
Long Term Fund:	
Change in Net Assets	
<i>Quarter Ended June 30, 2009</i>	
Beginning Market Value (3/31/09)	\$ 247,189,543
Net Contributions/(Withdrawals)	(3,286,508)
Investment Management and Administrative Expenses	(238,524)
Realized Investment Gains/(Losses)	(509,820)
Unrealized Gains/(Losses)	<u>25,818,453</u>
Ending Market Value (6/30/09)*	\$ 268,973,144

**Note: Net contributions/withdrawals and investment management expenses are those processed "as of" the prior quarter-end but processed early in the current quarter; therefore the ending market value shown equals the custodian's market value and does not reflect net contributions/distributions and expenses to be processed "as of" the current quarter-end.*

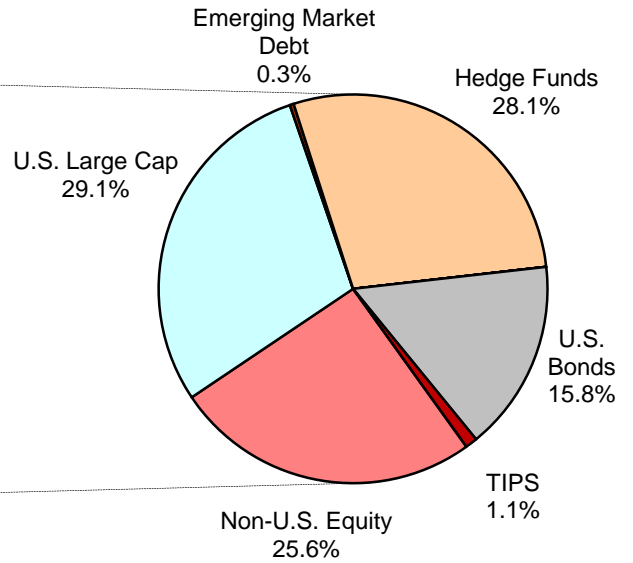
Long Term Fund: Asset/Strategy Allocations

Quarter Ended June 30, 2009

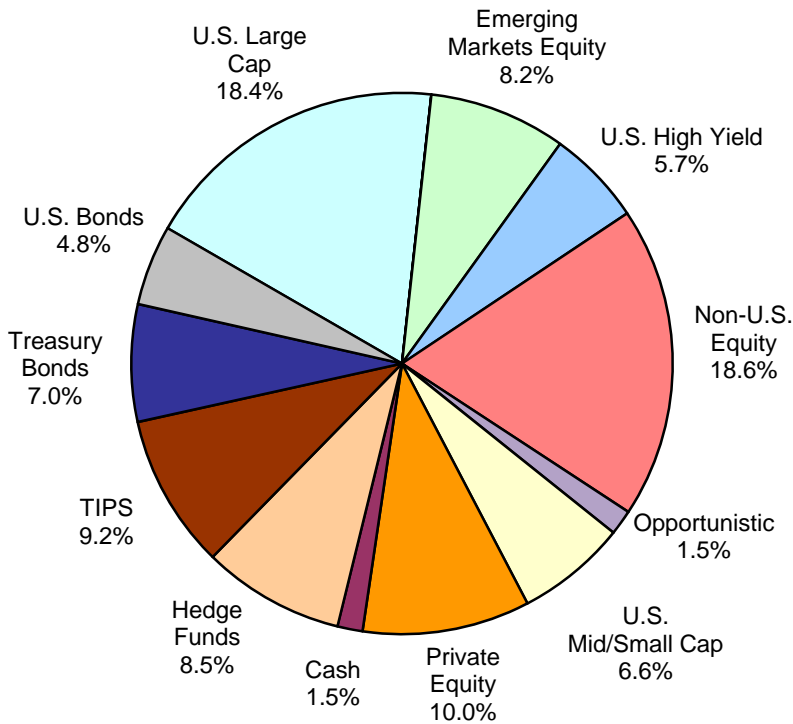
Total Portfolio Asset/Strategy Allocation



Global Tactical Asset Allocation



Total Effective Portfolio Asset Allocation



Long Term Fund: Actual Versus Target Asset/Strategy Allocation				
<i>Quarter Ended June 30, 2009</i>				
Asset Class/Strategy	Target Allocation (%)	Allowable Ranges (%)	Current Allocation (%)	Current Allocation (\$MM)
Global Tactical Asset Allocation	25.0%	20% - 30%	30.1%	\$80.9
Growth/High Yield Assets				
U.S. Equities	10.0%	7% - 13%	16.2%	\$43.5
Non-U.S. Equities	8.0%	6% - 10%	10.9%	\$29.2
Emerging Market Equities	6.5%	5% - 8%	8.2%	\$21.9
Private Equity	10.0%	5% - 15%	10.0%	\$27.0
High Yield Debt	<u>5.0%</u>	<u>3% - 7%</u>	<u>5.7%</u>	<u>\$15.3</u>
	39.5%	30% - 50%	51.0%	\$136.9
Event Risk- and Deflation-Hedge Assets				
U.S. Bonds	6.5%	5% - 8%	7.0%	\$18.9
U.S. Cash	0.0%	0% - 10%	1.5%	\$4.2
Absolute Return	<u>6.5%</u>	<u>5% - 8%</u>	<u>0.0%</u>	<u>\$0.0</u>
	13.0%	10% - 25%	8.5%	\$23.1
Real and Inflation-Hedge Assets				
U.S. TIPS	5.0%	3% - 7%	8.9%	\$23.9
Real Assets	<u>17.5%</u>	<u>12% - 23%</u>	<u>0.0%</u>	<u>\$0.0</u>
	22.5%	15% - 30%	8.9%	\$23.9
Opportunistic	0.0%	0% - 10%	1.5%	\$4.1
TOTALS	100%	100%	100%	\$268.9

2nd Quarter 2009 Fund-Level Transactions

The net cash drawdown requirement for the Fund (to cover the 1st quarter 2009 spending distribution, net of new gifts/withdrawals, interest and dividends collected, and expenses) was \$2.735 million. Conducted on April 30, 2009, \$1.485 million was drawn for the Cash account and \$1.25 million from the TIPS account. No other rebalancing or reallocations were conducted during the quarter. For the Private Equity program, the net cash flow for the 2nd quarter remained negative, with \$1,013,792 more drawn than returned (\$1,019,592 drawn; \$5,800 returned).

Current and Upcoming Fund-Level Activities

These key investment activities are planned within the next three to six months:

- Conduct further research and analyses regarding investment strategies and portfolio structuring for commercial real estate, timber, and absolute return asset classes.
- Issue a new RFP for U.S. small/mid cap equity investment managers.
- Issue RFPs/RFIs for commercial real estate, timber, and absolute return investment managers.
- Revisit/revise Investment Guidelines for separate account managers.
- Conduct investment manager due diligence meetings.
- Seek out and investigate opportunistic investment offerings.

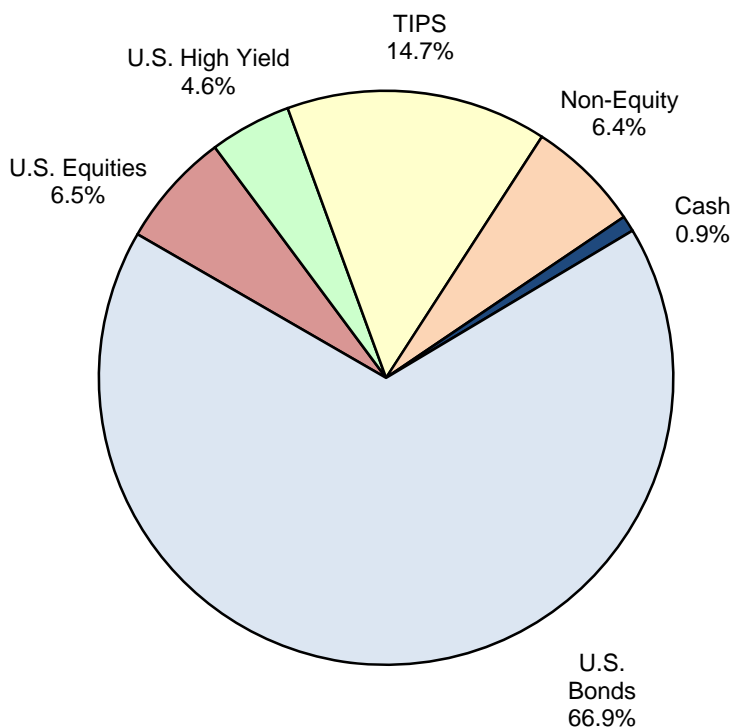
Intermediate Term Fund

The change in the net assets of the Intermediate Term Fund is summarized below.

Intermediate Term Fund: Change in Net Assets <i>Quarter Ended June 30, 2009</i>		
Beginning Market Value (3/31/09)	\$	62,718,092
Net Contributions/(Withdrawals)		(1,278,513)
Investment Management and Administrative Expenses		(17,413)
Realized Investment Gains/(Losses)		1,068,377
Unrealized Gains/(Losses)		<u>3,730,443</u>
Ending Market Value (6/30/09)*	\$	66,220,986

**Note: Net contributions/withdrawals and investment management expenses are those processed "as of" the prior quarter-end but processed early in the current quarter; therefore the ending market value shown equals the custodian's market value and does not reflect net contributions/distributions and expenses to be processed "as of" the current quarter-end.*

Intermediate Term Fund: Asset Allocation <i>Quarter Ended June 30, 2009</i>



Intermediate Term Fund: Actual Versus Target Asset/Strategy Allocation				
Quarter Ended June 30, 2009				
Asset Class/Strategy	Target Allocation (%)	Allowable Ranges (%)	Current Allocation (%)	Current Allocation (\$MM)
Growth/High Yield Assets				
U.S. Equities	7.5%	6% - 9%	6.5%	\$4.3
Non-U.S. Equities	7.5%	6% - 9%	6.4%	\$4.2
Emerging Market Equities	0.0%	0% - 3%	0.0%	\$0.0
High Yield Debt	<u>5.0%</u>	<u>4% - 6%</u>	<u>4.6%</u>	<u>\$3.1</u>
	20.0%	15% - 25%	17.4%	\$11.6
Event Risk- and Deflation-Hedge Assets				
U.S. Bonds	40.0%	30% - 50%	66.9%	\$44.3
U.S. Cash	10.0%	5% - 15%	0.9%	\$0.6
Absolute Return	<u>10.0%</u>	<u>8% - 12%</u>	<u>0.0%</u>	<u>\$0.0</u>
	60.0%	45% - 75%	67.8%	\$44.9
Real and Inflation-Hedge Assets				
U.S. TIPS	<u>20.0%</u>	<u>15% - 25%</u>	<u>14.7%</u>	<u>\$9.7</u>
	20.0%	15% - 25%	14.7%	\$9.7
TOTALS	100%	100%	100%	\$66.2

2nd Quarter 2009 Fund-Level Transactions

The net 1st quarter 2009 cash flow for the Fund (net new contributions/withdrawals, interest and dividends collected, and expenses) conducted on May 1, 2009 required a draw of only \$591,589, which was taken from the Reams account.

Asset class reallocations to move the Intermediate Term Fund toward the new target strategic asset allocation began on March 31, 2008. The intent is to conduct these shifts to target in installments over time. Another reallocation installment was conducted at June 30, 2009. In this instance, \$1.8 million was drawn for the Reams account and was used to purchase \$600,000 each, in U.S. Equities, Non-U.S. Equities, and TIPS via ETFs.

Current and Upcoming Fund-Level Activities

These key investment activities are planned within the next three to six months:

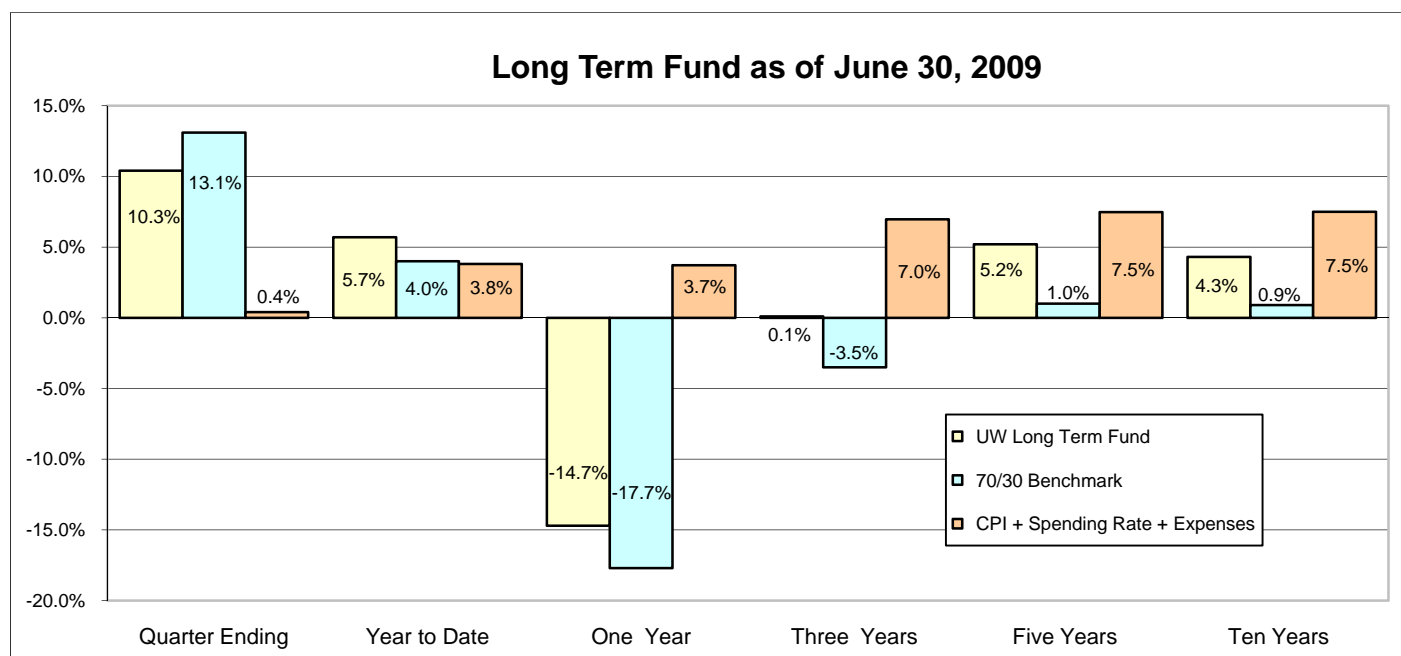
- Finalize asset class reallocations to achieve the new target asset allocation using low-cost, highly-liquid index vehicles (e.g., mutual funds or ETFs), at least temporarily.
- Determine permanent investment manager/vehicle selections for the Fund's new asset classes.
- Revisit/revise Investment Guidelines for separate account managers.
- Conduct investment manager due diligence meetings.

SECTION 3: PERFORMANCE ANALYSIS

INVESTMENT PERFORMANCE REVIEW

Long Term Fund: Composite

Performance results for the Long Term Fund are shown below, both graphically and in table format.



Long Term Fund: Composite						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Ten Years
Long Term Fund	10.3%	5.7%	-14.7%	0.1%	5.2%	4.3%
70/30 Benchmark ¹	13.1%	4.0%	-17.7%	-3.5%	1.0%	0.9%
Allocation Index ²	13.0%	7.5%	-14.9%	0.4%	5.3%	4.0%
CPI + Spending Rate + Expenses ³	0.4%	3.8%	3.7%	7.0%	7.5%	7.5%
Peer Median ⁴	11.3%	4.9%	-19.5%	-3.1%	2.5%	3.0%
Peer Ranking: Percentile	58 th	43 rd	15 th	12 th	14 th	30 th

¹ The "70/30 benchmark" represents a more "traditional" asset allocation of 70% stocks/30% bonds, comprised of 55% S&P 500, 15% MSCI EAFE (unhedged), and 30% Lehman Aggregate Bond indexes.

² The allocation index measures active manager performance by replacing active manager returns with their benchmark returns. The private equity portion of the allocation index uses actual manager returns.

³ The annual spending rate is currently 4.0% and expenses are assumed to average 0.75% per year. The Consumer Price Index (CPI) is used as the inflation indicator, although the Higher Education Price Index (HEPI) may be more appropriate.

⁴ Peer data is from the Russell Mellon Analytical Services trust universe database based on the "Foundations and Endowments < \$1 Billion" classification.

Long Term Fund: Growth and High-Yielding Assets

The tables that follow provide investment performance data by individual investment manager/portfolio.

Long Term Fund: Growth and High-Yielding Assets						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
Asset Class/Strategy	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Since Mgr Inception
Global Tactical Asset Allocation						
GMO Real Return Global Balanced¹	6.0%	2.1%	-6.5%	2.6%	N/A	6.7%
Benchmark	12.6%	4.7%	-16.8%	-2.6%	N/A	4.9%
U.S. Large-Cap Equity						
UBS Global Asset Mgt²	21.2%	8.1%	-25.3%	-7.3%	-0.4%	3.1%
S&P 500	15.9%	3.2%	-26.2%	-8.2%	-2.2%	1.4%
Peer Median ³	15.7%	5.7%	-26.0%	-7.1%	-1.0%	N/A
Peer Ranking	10 th	34 th	43 rd	54 th	39 th	N/A
U.S. Mid/Small-Cap Equity						
Russell Mid-Cap ETF⁴	21.2%	10.2%	-30.3%	N/A	N/A	-19.9%
Russell Mid-Cap	20.8%	10.0%	-30.3%	N/A	N/A	-19.9%
Russell 2000 ETF⁵	21.4%	4.1%	-24.8%	N/A	N/A	-18.7%
Russell 2000	20.7%	2.6%	-25.0%	N/A	N/A	-19.0%
300 North Capital⁶	21.5%	11.3%	-27.6%	-10.8%	-2.6%	2.2%
Russell 2000 Growth	23.3%	11.4%	-24.8%	-7.8%	-1.3%	0.4%
Peer Median	21.7%	12.0%	-27.5%	-8.7%	-1.1%	N/A
Peer Ranking	58 th	57 th	52 nd	75 th	73 rd	N/A
Developed Market Non-U.S. Equity						
UBS International Fund⁷	28.2%	12.6%	-25.9%	-7.6%	1.4%	3.5%
MSCI EAFE (Unhedged)	25.8%	8.4%	-31.0%	-7.5%	2.8%	3.4%
MSCI EAFE (Hedged)	15.8%	3.8%	-26.1%	-11.1%	-0.7%	0.1%
Peer Median	24.6%	7.6%	-30.4%	-6.6%	3.3%	N/A
Peer Ranking	31 st	36 th	16 th	66 th	96 th	N/A
Emerging Market Equity						
GMO Emerging Markets Fund⁸	31.9%	29.4%	-33.8%	2.0%	15.7%	13.5%
MSCI Emerging Markets	34.8%	36.2%	-27.8%	3.3%	15.1%	15.2%
S&P/IFC Investable Composite	36.1%	37.8%	-27.4%	3.4%	15.7%	15.6%
Peer Median	34.7%	34.4%	-31.9%	2.2%	15.3%	N/A
Peer Ranking	84 th	96 th	71 st	57 th	41 st	N/A
U.S. High Yield						
Seix Advisors U.S. High Yield⁹	10.6%	17.4%	-5.4%	0.9%	N/A	-2.6%
Merrill Lynch High Yield Master	23.2%	29.4%	-3.5%	1.8%	N/A	-1.5%
Merrill Lynch High Yield BB/B	18.0%	25.5%	-3.4%	2.1%	N/A	-1.3%
Peer Median	17.1%	23.3%	-2.7%	2.6%	N/A	N/A
Peer Ranking	94 th	91 st	82 nd	82 nd	N/A	N/A
Opportunistic						
GMO Emerging Illiquid Fund¹⁰	43.6%	37.7%	-15.6%	N/A	N/A	-6.5%

¹ The inception date for the GMO Real Return Global Balanced Fund is February 1, 2006. The benchmark consists of 60% MSCI World, 20% Citigroup 3 month T-Bill, and 20% Lehman Aggregate. No peer data is currently available.

² The inception date for UBS Global Asset Mgt is December 1, 1997. Peer data is for "Equity Composite" classification.

³ The source for all peer data is the Russell Mellon Analytical Services trust universe database.

⁴ The inception date for the Russell Mid-Cap ETF is May 4, 2007. Peer data is for "Mid-Cap Equity" classification.

⁵ The inception date for the Russell 2000 ETF is May 4, 2007. Peer data is for "Small-Cap Equity" classification.

⁶ The inception date for 300 North Capital (formerly "Provident") is December 1, 1997. Peer data is for "Small-Cap Growth" classification.

⁷ The inception date for the UBS International Fund is December 1, 1997. Peer data is for "Core Non-U.S. Equity" classification.

⁸ The inception date for the GMO Emerging Markets Fund is November 1, 2003. Peer data is for "Emerging Markets Equity" classification.

⁹ The inception date for the Seix Advisors U.S. High Yield Fund is April 17, 2006. Peer data is for "High-Yield Bond" classification.

¹⁰ The inception date for the GMO Emerging Illiquid Fund is March 9, 2007. No peer data is available.

Long Term Fund: U.S. Equity Composite						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Since Inception
Long Term Fund U.S. Equity	21.3%	8.5%	-26.2%	-8.7%	-1.6%	3.3%
Russell 3000	16.8%	4.2%	-26.6%	-8.3%	-1.8%	1.3%

¹ As the Long Term Fund's allocation to U.S. Equity is comprised of allocations to various equity subclasses (e.g., large-, mid-, small-cap), performance and risk data are also shown for a composite of the Fund's U.S. equity exposure versus a broader market benchmark.

² The inception date for the Long Term Fund U.S. Equity composite is February 28, 1998.

Performance data on Private Equity, presented in a different fashion and lagged by one quarter due to the nature of this unique asset class, is provided below. Note too that each of the investment managers and "funds" listed below are in fact "funds-of-funds," comprised of many underlying private equity limited partnerships/funds.

Private Equity						
<i>Investment Results: As of March 31, 2009</i>						
Fund of Funds	Commitments	Dollars Drawn	Remaining Unfunded Commitments	Dollars Returned	Investment Value (Equity)	Equity + Dollars Returned
Adams Street Partners						
2002 Funds	\$ 10,000,000	\$8,874,750	\$1,125,250	\$4,030,056	\$6,341,393	\$10,371,449
2004 Funds	15,000,000	11,659,125	3,340,875	2,401,840	8,665,963	11,067,803
2008 Funds	5,000,000	902,000	4,098,000	0	918,888	918,888
2009 Funds	4,000,000	40,200	3,959,800	0	33,005	33,005
	\$34,000,000	\$21,476,075	\$12,523,925	\$6,431,896	\$15,959,249	\$22,391,145
J.P. Morgan						
Corporate Finance II (2002)	\$10,000,000	\$9,225,611	\$774,389	\$4,178,342	\$7,819,774	\$11,998,116
Corporate Finance III (2006)	2,000,000	994,112	1,005,888	69,261	806,515	876,776
Venture Capital III (2006)	8,000,000	2,577,329	5,422,671	131,828	2,306,651	2,438,479
Corporate Finance IV (2008)	9,000,000	47,936	8,952,064	0	45,881	45,881
Venture Capital IV (2008)	3,000,000	39,860	2,960,140	0	36,253	36,253
	\$32,000,000	\$12,884,848	\$19,115,152	\$4,379,431	\$11,015,074	\$15,395,505
TOTALS	\$66,000,000	\$34,360,923	\$31,639,077	\$10,811,327	\$26,974,323	\$37,786,650

Private Equity			
<i>Investment Performance: As of March 31, 2009</i>			
	Three Years	Five Years	Since Mgr Inception ¹
Adams Street Partners	1.5%	5.3%	5.6%
J.P. Morgan	-0.2%	2.9%	3.1%
Venture Economics Benchmark ²	-3.9%	-0.8%	-0.7%
S&P 500	-13.1%	-4.8%	N/A

¹ The inception date for Adams Street Partners is March 21, 2003. The inception date for JP Morgan is January 14, 2003.

² The Venture Economics Benchmark is a customized global private equity benchmark calculated by Adams Street Partners.

Long Term Fund: Event-Risk and Deflation-Hedge Assets

Long Term Fund: Event-Risk and Deflation-Hedge Assets						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
Asset Class/Strategy	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Since Inception
U.S. Treasurys						
Applied Security Analysis Program¹	0.1%	0.3%	1.3%	3.6%	N/A	3.9%
Citigroup U.S. Treasury 1-10 Year ²	-2.1%	-2.5%	6.1%	7.0%	N/A	6.0%
Cash (1 month Treasury Bill)	0.0%	0.1%	0.5%	2.8%	N/A	3.1%

¹ On a tactical basis, this portfolio has been maintained in "cash" since former portfolio holdings were liquidated in the transition away from a broad-market bond portfolio benchmarked to the Lehman Aggregate Bond Index. This portfolio transition began on December 1, 2005 and liquidations to cash were largely completed by June/July 2006. Eventually, the portfolio will be structured as a passive, laddered portfolio of U.S. Treasurys.

² Performance is compared only to market indexes. Comparison to a "peer" group of active managers is not appropriate as this is a passively-managed portfolio.

Long Term Fund: Real and Inflation-Hedge Assets

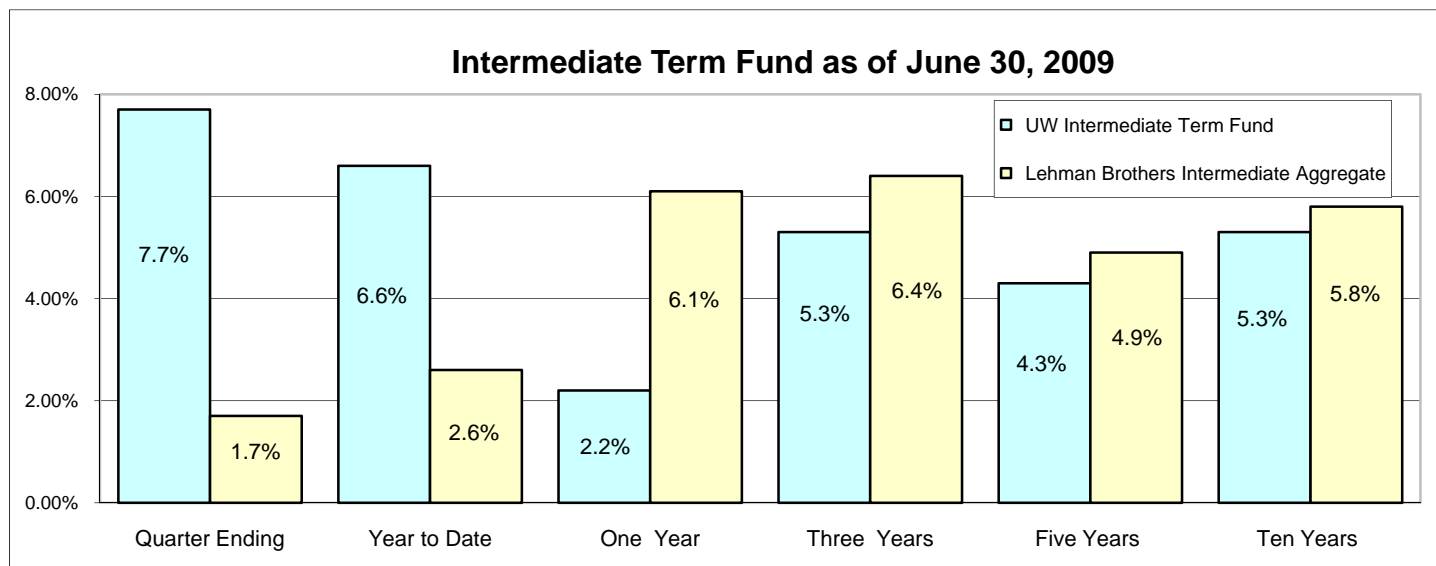
Long Term Fund: Real and Inflation-Hedge Assets						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
Asset Class/Strategy	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Since Inception
U.S. TIPS						
Applied Security Analysis Program¹	-0.5%	6.3%	-0.8%	5.7%	N/A	4.6%
Citigroup Inflation Linked Securities ²	0.4%	4.7%	-1.3%	5.7%	N/A	4.6%

¹ This portfolio was transitioned away from a broad-market bond portfolio benchmarked to the Lehman Aggregate Bond Index beginning on December 1, 2005. The portfolio is now structured as a passive, laddered portfolio of U.S. TIPS.

² Performance is compared only to market indexes. Comparison to a "peer" group of active managers is not appropriate as this is a passively-managed portfolio.

Intermediate Term and Income Funds

Returns for the Intermediate Term Fund overall and by individual manager are provided below.



Intermediate Term Fund: Composite						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Ten Years
Intermediate Term Fund	7.7%	6.6%	2.2%	5.3%	4.3%	5.3%
Barclay's Intermediate Aggregate	1.7%	2.6%	6.1%	6.4%	4.9%	5.8%
CPI	0.8%	1.4%	-1.2%	2.1%	2.6%	2.6%

¹ The Barclay's Intermediate Aggregate benchmark, consisting of 100% investment-grade bonds, represents a more "traditional" asset allocation for a portfolio with an intermediate investment "duration."

² The allocation index measures active manager performance by replacing active manager returns with their benchmark returns.

The following table provides performance data by individual investment manager/portfolio.

Intermediate Term Fund						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
Asset Class/Strategy	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Since Mgr Inception ¹
Intermediate U.S. Fixed Income						
Reams Asset Management¹	9.1%	8.0%	6.5%	6.9%	5.2%	5.7%
Applied Security Program¹	1.0%	3.0%	7.3%	6.9%	5.1%	5.8%
Barclay's Intermediate Aggregate	1.7%	2.6%	6.1%	6.4%	4.9%	5.7%
Peer Median ²	3.8%	4.3%	6.0%	6.5%	5.1%	N/A
Peer Ranking: Reams Asset Management	3 rd	9 th	45 th	42 nd	37 th	N/A
Peer Ranking: Applied Security Program	95 th	77 th	42 nd	42 nd	49 th	N/A
Multi-Asset Portfolio³	8.7%	5.9%	-11.7%	N/A	N/A	-0.9%

¹ Inception date for Reams and Applied Securities is February 1998.

² Peer data is for "Intermediate Bond" classification.

³ The Intermediate Term Fund's Multi-Asset Portfolio³, which began March 31, 2008, consists of U.S. and Non-U.S. Equities, U.S. TIPS, and High Yield Debt. These investments are primarily managed through ETF's.

The Income Fund, which is SWIB's short-term investment fund for the State, performed as follows:

Income Fund						
<i>Investment Performance: Periods Ended June 30, 2009</i>						
	Quarter Ending	Year To Date	One Year	Three Years	Five Years	Ten Years
Income Fund	0.1%	0.4%	1.3%	3.6%	3.4%	3.3%
Cash (1 month Treasury Bill)	0.0%	0.1%	0.5%	2.8%	2.9%	2.9%

The current yield for the Income Fund is 0.41%.

SECTION 4: RISK ANALYSIS

REVIEW OF PORTFOLIO CHARACTERISTICS, RISK AND COMPLIANCE

Long Term Fund: Composite

Fund-Level Constraints

One fund-level constraint is set by statute. Compliance with this statute is demonstrated below. Fund-level asset allocation constraints are given in the "Fund Overviews" section.

	Maximum Permitted	Allocation as of June 30, 2009
Allocation to public equities:	85%	53.3%*

*Note: This percent does not include Private Equity or any net long equity position within GMO's Multi-Strategy hedge fund-of-funds.

Risk Measures

Currently, the only statistical measurement made of overall risk is annualized standard deviation of monthly returns. Standard deviations of overall Fund returns for various timeframes are shown below. Also shown are the resulting Sharpe ratios, or return per unit of risk, a common measurement of portfolio efficiency.

Standard Deviation: Periods Ended June 30, 2009				
	1 year	3 year	5 year	10 year
Long Term Fund	15.4%	11.1%	10.2%	11.2%
70/30 Benchmark ¹	20.9%	14.0%	11.4%	11.2%
Allocation Index ²	18.7%	12.8%	11.3%	11.5%

¹ The 70/30 benchmark represents a more "traditional" asset allocation comprised of 55% S&P 500, 15% MSCI EAFE (unhedged), and 30% Lehman Aggregate.

² The allocation index measures manager performance by replacing manager returns with benchmark returns. The private equity portion of the allocation index uses actual manager returns.

Sharpe Ratio: Periods Ended June 30, 2009				
	1 year	3 year	5 year	10 year
Long Term Fund	(1.20)	(0.33)	0.15	0.04
70/30 Benchmark	(1.03)	(0.52)	(0.24)	(0.25)
Allocation Index	(0.99)	(0.26)	0.14	0.03

*Note: The Sharpe measure of risk-adjusted performance is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance.

Long Term Fund: Individual Manager Portfolios

The tables that follow provide various portfolio characteristics of individual manager portfolios, and in the case of separately-managed accounts, information as to compliance with current investment constraints. These constraints are as follows:

Equity Separate Accounts:

- Maximum of 5% in cash
- Maximum of 15% in any one industry (SIC Classification)
- Maximum of 7% in any one company

Fixed Income Separate Accounts (Investment-Grade):

- The only fixed income separate accounts managed within the Long Term Fund currently are the U.S. Treasuries and U.S. TIPS portfolios. These portfolios are being managed passively to mirror their respective market benchmarks.

Growth and High-Yielding Assets

Global Tactical Asset Allocation

GMO Real Return Global Balanced Asset Allocation Strategy

This strategy is comprised of two components: 1) GMO's Strategic Opportunities Allocation Fund, a mutual fund-of-funds comprised of underlying GMO mutual funds; and 2) GMO's Multi-Strategy Fund, an internal hedge fund-of-funds comprised of underlying GMO hedge funds. The overall asset allocation of the combined GMO Real Return Global Balanced Strategy is given on page 8. Given below are some broad characteristics for this strategy.

Global Tactical Asset Allocation		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	GMO	Benchmark¹
Standard deviation ²	6.6%	12.1%
Sharpe ratio	(0.18)	(0.47)
<u>Fund allocations:</u>		
<i>U.S. Equity</i>	29.1%	26.0%
<i>U.S. Quality</i>	25.9%	
<i>U.S. Core</i>	3.2%	
<i>Non-U.S. Equity</i>	25.6%	34.0%
<i>International Intrinsic Value</i>	11.7%	
<i>International Growth Equity</i>	11.5%	
<i>Flexible Equity</i>	2.4%	
<i>Fixed Income</i>	14.1%	20.0%
<i>Strategic Fixed Income</i>	4.5%	
<i>Domestic Bond</i>	2.3%	
<i>Asset Allocation Bond</i>	2.1%	
<i>Strategic Opportunities Allocation</i>	1.9%	
<i>Special Situations</i>	1.5%	
<i>Inflation Indexed Plus</i>	1.1%	
<i>World Opportunity Overlay</i>	0.4%	
<i>Emerging Country Debt</i>	0.3%	
<i>Multi Strategy Fund</i>	28.1%	0.0%
<i>Mean Reversion</i>	4.8%	
<i>U.S. Tactical Opportunities</i>	4.2%	
<i>Completion Fund</i>	4.1%	
<i>Pan-European Long/Short</i>	2.7%	
<i>Fixed Income Hedge</i>	2.6%	
<i>Global Tactical</i>	2.2%	
<i>Short Term Market Opportunities</i>	1.9%	
<i>Emerging Country Debt</i>	1.9%	
<i>Currency Hedge</i>	1.2%	
<i>Emerging Currency Hedge</i>	1.0%	
<i>Market Neutral</i>	0.8%	
<i>U.S. Aggressive Long/Short</i>	0.7%	
<i>Other Market Neutral Hedge Funds</i>	3.1%	0.0%
<i>Alpha Only</i>	3.1%	
TOTAL	100.0%	100.0%

¹ The benchmark index is comprised of 60% MSCI World, 20% Citigroup 3-month Treasury Bill, and 20% Lehman Aggregate.

² Sharpe ratio and standard deviation are as of June 30, 2009, for the period beginning June 30, 2004, the fund inception.

U.S. Large Cap Equity

UBS Global Asset Management

Investment is made via a separately-managed account for UW Trust Funds.

U.S. Large Cap Equity		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	UBS Asset Mgt	S&P 500
Standard deviation ¹	17.2%	16.4%
Sharpe ratio	(0.04)	(0.14)
P/E ratio ²	16.0	16.6
Price to book ratio	1.7	2.0
Five-year EPS growth	16.8	14.2
Asset turnover ³	108%	N/A
Number of holdings	89	500
% of portfolio held in cash	0.4%	N/A
Average market capitalization (\$mm)	\$48,375	\$71,367
Median market capitalization (\$mm)	\$17,578	\$39,802
<u>Major sector positions:</u>		
<i>Consumer Discretionary</i>	18.9%	9.0%
<i>Financials</i>	13.9%	13.6%
<i>Information Technology</i>	12.3%	18.3%
<i>Health Care</i>	11.9%	14.0%
<i>Energy</i>	11.9%	12.4%
<i>Industrials</i>	10.2%	9.9%
TOTAL	79.1%	77.2%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used for computation begins December 1, 1997.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

³ Asset turnover is based on a one-year period.

UBS Asset Management: Top Ten Equity Holdings		
<i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
AT & T	\$ 712,908	2.8%
DISCOVER FINANCIAL	676,793	2.6%
JPMORGAN CHASE	627,624	2.4%
CHEVRON CORP	622,750	2.4%
COMCAST	610,029	2.4%
APPLE INC	598,206	2.3%
COVIDIEN	584,064	2.3%
JC PENNEY CO	545,490	2.1%
PEPSICO INC	522,120	2.0%
MICROSOFT	499,170	1.9%
TOTAL IN TOP TEN HOLDINGS	\$ 5,999,154	23.2%

U.S. Small and Mid-Cap Cap Equity

300 North Capital (formerly “Provident”) - Small Cap Growth

Investment is made via a separately-managed account for UW Trust Funds.

Small Cap Equity: Growth		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	Provident	Russell 2000 Growth
Standard deviation ¹	28.5%	26.1%
Sharpe ratio	(0.05)	(0.13)
P/E ratio ²	18.9	22.1
Price to book ratio	3.8	4.0
Five-year EPS growth	30.4	26.0
Asset turnover ³	131.8%	N/A
Number of holdings	57	1,274
% of portfolio held in cash	2.6%	N/A
Average market capitalization (\$mm)	\$1,310	\$829
Median market capitalization (\$mm)	\$1,108	\$343
<u>Major sector positions:</u>		
<i>Information Technology</i>	24.0%	27.2%
<i>Health Care</i>	17.8%	15.0%
<i>Consumer Discretionary</i>	17.7%	15.0%
<i>Industrials</i>	13.9%	24.7%
TOTAL	73.4%	81.9%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used for 300 North Capital begins December 1, 1997.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

³ Asset turnover is based on a one-year period.

300 North Capital:		
Top Ten Equity Holdings		
<i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
EQUINIX INC	\$ 392,796	4.7%
NEUTRAL TANDEM INC	309,960	3.7%
OLD DOMINION FREIGHT LINES	287,024	3.4%
MERCADOLIBRE INC	268,800	3.2%
NETLOGIC MICROSYSTEMS	260,689	3.1%
ICONIX BRAND GROUP	250,694	3.0%
LASALLE HOTELS	241,864	2.9%
RIVERBED TECHNOLOGY INC	235,379	2.8%
LANDSTAR SYSTEMS	231,620	2.8%
INTREPID POTASH INC	206,388	2.5%
TOTAL IN TOP TEN HOLDINGS	\$ 2,685,214	32.1%

Small Cap Core ETF

Investment is made via a small cap core exchange-traded index fund ("ETF"), pegged to the Russell 2000 Index.

Small-Cap Equity: Core		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	Russell 2000 ETF	Russell 2000
Standard deviation ¹	25.9%	26.5%
Sharpe ratio	(0.86)	(0.87)
P/E ratio ²	22.0	N/A
Price to book ratio	N/A	1.5
Number of holdings	2,025	2,019
% of portfolio held in cash	0.0%	N/A
Average market capitalization (\$mm)	\$ 762	\$ 763
Median market capitalization (\$mm)	\$ 317	N/A
Major sector positions:		
<i>Financials</i>	20.5%	19.5%
<i>Consumer Discretionary</i>	16.8%	13.0%
<i>Information Technology</i>	15.8%	19.7%
<i>Health Care</i>	15.0%	15.1%
<i>Materials</i>	8.2%	3.8%
TOTAL	76.3%	71.1%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used for the Russell 2000 ETF begins May 4, 2007.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

Russell 2000 ETF:		
Top Ten Equity Holdings		
<i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
PALM INC	\$ 14,110	0.3%
3COM CORP	11,288	0.2%
OWENS & MINOR INC	11,288	0.2%
VISTAPRINT	11,288	0.2%
PIEDMONT NATURAL GAS	11,288	0.2%
SOLERA HOLDINGS	11,288	0.2%
JACK HENRY & ASSOCIATES	10,818	0.2%
TETRA TECH	10,818	0.2%
POLYCOM INC	10,818	0.2%
SKYWORX SOLUTIONS INC	10,348	0.2%
TOTAL IN TOP TEN HOLDINGS	\$ 113,352	2.1%

Mid Cap Core ETF

Investment is made via a mid cap core exchange-traded index fund ("ETF"), pegged to the Russell Mid Cap Index.

Mid-Cap Equity: Core		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	Russell Mid-Cap ETF	Russell Mid-Cap
Standard deviation ¹	25.5%	25.9%
Sharpe ratio	(0.93)	(0.91)
P/E ratio ²	19.4	N/A
Price to book ratio	N/A	1.7
Number of holdings	778	777
% of portfolio held in cash	0.0%	N/A
Average market capitalization (\$mm)	\$ 4,940	\$ 4,954
Median market capitalization (\$mm)	\$ 2,690	N/A
<u>Major sector positions:</u>		
<i>Financials</i>	19.0%	17.8%
<i>Consumer Discretionary</i>	15.8%	14.8%
<i>Information Technology</i>	11.3%	14.4%
<i>Utilities</i>	9.7%	8.2%
<i>Health Care</i>	8.9%	9.3%
TOTAL	64.7%	64.5%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used for the Russell Midcap ETF begins May 4, 2007.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

Russell Midcap ETF:		
Top Ten Equity Holdings		
<i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
TJX COMPANIES	\$ 24,563	0.5%
PPL CORP	23,199	0.5%
SEMPRA ENERGY	22,744	0.5%
LORILLARD INC	21,379	0.5%
HJ HEINZ	20,924	0.5%
AVON PRODUCTS	20,924	0.5%
SPECTRA ENERGY	20,469	0.4%
T ROWE PRICE GROUP	20,015	0.4%
PROGRESS ENERGY	20,015	0.4%
MARSH & MCLENNAN	19,560	0.4%
TOTAL IN TOP TEN HOLDINGS	\$ 213,792	4.6%

U.S. Equity Composite

As the Long Term Fund's allocation to U.S. Equity is comprised of allocations to various equity subclasses (e.g., large-, mid-, small-cap), characteristic and risk data are shown for a composite of the Fund's U.S. equity exposure versus a broader market benchmark. The composite includes all current and prior U.S. Equity managers since April 1, 1998, the composite inception date.

U.S. Equities		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	U.S. Equity Composite	Russell 3000
Standard deviation ¹	19.2%	16.8%
Sharpe ratio	(0.02)	(0.15)
P/E ratio ²	17.7	18.4
Price to book ratio	1.8	2.0
Five-year EPS growth	17.3%	13.9%
Average market capitalization (\$mm)	\$ 36,658	\$ 59,146
Median market capitalization (\$mm)	\$ 11,286	\$ 24,193
Major sector positions: ³		
<i>Consumer Discretionary</i>	18.7%	9.9%
<i>Information Technology</i>	15.4%	18.5%
<i>Health care</i>	12.5%	13.8%
<i>Financials</i>	12.4%	14.2%
<i>Industrials</i>	12.2%	10.4%
<i>Energy</i>	10.5%	11.3%
TOTAL	81.7%	78.1%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used begins April 1, 1998.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

³ Sector positions for the U.S. Equity Composite are approximations due to the unavailability of Commingled fund data.

Developed Markets Non-U.S. Equity

UBS Global Asset Management

Investment here is made through UBS's institutional commingled fund, the UBS International Equity Fund.

Developed Markets Non-U.S. Equities		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	UBS Intl Equity	MSCI EAFE
Standard deviation ¹	17.2%	17.6%
Sharpe ratio	(0.01)	(0.01)
P/E ratio ²	25.7	18.9
Price to book ratio	1.4	1.5
Five-year EPS growth	11.5%	13.9%
Asset turnover ³	40.0%	N/A
Number of holdings	77	1,690
% of portfolio held in cash	1.9%	N/A
Average market capitalization (\$mm)	\$ 28,534	\$ 9,961
Median market capitalization (\$mm)	\$ 15,826	\$ 4,534
<u>Major sector positions:</u>		
<i>Financials</i>	25.9%	25.4%
<i>Consumer Staples</i>	10.5%	9.4%
<i>Industrials</i>	9.9%	10.8%
<i>Materials</i>	9.3%	10.1%
<i>Energy</i>	9.0%	10.4%
<i>Consumer Discretionary</i>	8.7%	9.4%
TOTAL	73.3%	75.5%

¹ Where standard deviations, Sharpe ratios and information ratios are given, the time period used begins December 1, 1997.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

³ Asset turnover is based on a one-year period. UBS calculates turnover annually.

UBS International Equity Fund:		
Top Ten Equity Holdings		
<i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
ROCHE HOLDINGS	\$ 897,674	3.1%
VODAPHONE GROUP	856,738	2.9%
BNP PARIBAS	742,701	2.5%
JAPAN TOBACCO INC	672,525	2.3%
TOTAL	660,829	2.3%
E.ON GROUP	643,285	2.2%
MITSUBISHI CORP	584,804	2.0%
BARCLAYS	581,880	2.0%
SUMITOMO MITSUI FINANCIAL GROUP	561,412	1.9%
BRITISH SKY BROADCASTING	540,944	1.9%
TOTAL IN TOP TEN HOLDINGS	\$ 6,742,792	23.1%

UBS International Equity Fund: Top Country Holdings <i>As of June 30, 2009</i>			
Country	Market Value	Percent of Portfolio	Percent of Benchmark
JAPAN	\$ 6,579,047	22.5%	21.9%
UNITED KINGDOM	5,848,042	20.0%	19.1%
GERMANY	2,836,300	9.7%	7.1%
FRANCE	2,368,457	8.1%	9.4%
SWITZERLAND	2,222,256	7.6%	6.8%
CANADA	1,549,731	5.3%	9.1%
TOTAL	\$ 21,403,832	73.2%	73.4%

Emerging Market Equity

GMO

Investment here is made through GMO's institutional mutual fund, the GMO Emerging Markets Fund III.

Emerging Market Equities <i>Portfolio Characteristics as of June 30, 2009</i>		
	GMO Emerging Markets	S&P/IFCI
Standard deviation ¹	26.5%	26.4%
Sharpe ratio	0.23	0.62
P/E ratio ²	11.4	13.4
Price to book ratio	1.4	1.7
Return on equity (1 year)	14.8%	15.0%
Asset turnover	99%	N/A
Number of holdings	457	1,567
% of portfolio held in cash	2.1%	N/A
Median market capitalization (\$mm)	\$ 3,300	\$ 5,500
<u>Major sector positions:</u> ⁴		
<i>Financials</i>	22.8%	22.1%
<i>Energy</i>	17.2%	15.4%
<i>Information Technology</i>	15.2%	12.8%
<i>Materials</i>	12.3%	13.7%
<i>Telecommunication Services</i>	9.9%	9.5%
TOTAL	77.4%	73.5%

¹ Where standard deviations and Sharpe ratios are given, the time period used begins November 1, 2003.

² P/E is calculated as the last 12 months of primary earnings per share before extraordinary items, divided by current market price.

³ Asset turnover is based on a one-year period. GMO calculates turnover annually.

⁴ The "Sectors" used are GICS classifications.

GMO Emerging Markets Fund: Top Ten Equity Holdings <i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
GAZPROM	\$ 877,896	4.0%
SAMSUNG ELECTRONICS	680,370	3.1%
PETROLEO BRASILEIRO	548,685	2.5%
TURKIYE GARANTI BANKASI	438,948	2.0%
LUKOIL OIL	438,948	2.0%
VALE SA	307,264	1.4%
HYUNDAI MOBIS	285,316	1.3%
HON HAI PRECISION	263,369	1.2%
MOBILE TELESYSTEMS	263,369	1.2%
TAIWAN SEMICONDUCTOR	241,422	1.1%
TOTAL IN TOP TEN HOLDINGS	\$ 4,345,587	19.8%

GMO Emerging Markets Fund: Top Country Holdings <i>As of June 30, 2009</i>			
Country	Market Value	Percent of Portfolio	Percent of Benchmark
KOREA	\$ 4,060,271	18.5%	13.1%
BRAZIL	3,116,532	14.2%	13.6%
TAIWAN	2,699,532	12.3%	12.5%
CHINA	2,523,952	11.5%	17.5%
RUSSIA	2,238,636	10.2%	7.1%
TURKEY	1,514,371	6.9%	1.4%
TOTAL	\$ 12,529,478	75.6%	65.2%

U.S. High Yield

Seix Advisors

Investment here is made through Seix's institutional commingled fund, the Seix U.S. High Yield Fund.

U.S. High Yield		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	Seix High Yield	Merrill Lynch High Yield
Standard deviation	11.7%	13.7%
Sharpe ratio	(0.53)	(0.68)
Average quality	BB-	BB-
Duration (years)	4.1	4.1
Yield to maturity	9.9%	14.7%
Average coupon	8.0%	7.9%
Number of holdings	297	1,276
<u>Major industry positions:</u>		
<i>Energy</i>	17.6%	14.6%
<i>Utilities</i>	13.2%	10.0%
<i>Telecommunications</i>	12.0%	10.4%
<i>Healthcare</i>	10.9%	6.9%
<i>Cable TV</i>	9.0%	5.1%
<i>Capital Goods</i>	4.6%	5.9%
TOTAL	67.3%	52.9%

Seix Advisors U.S. High Yield Fund:			
Top Ten Fixed Income Holdings			
<i>As of June 30, 2009</i>			
Issuer	Coupon/Final Maturity	Market Value	Percent of Portfolio
NRG ENERGY	7.375% 02/01/2016	\$ 267,889	1.7%
TECK RESOURCES	10.75% 05/15/2019	242,147	1.6%
ASHLAND INC.	9.125% 06/01/2017	229,121	1.5%
BANK OF AMERICA CORP	8.000% 12/29/2049	179,015	1.2%
COMMUNITY HEALTH	8.875% 07/15/2015	175,311	1.1%
KABEL DEUTSCHLAND	10.625% 07/01/2014	171,431	1.1%
HCA INC	9.125% 11/15/2014	170,572	1.1%
HERTZ CORP	8.875% 01/01/2014	153,531	1.0%
CITIGROUP CAP XXI	8.300% 12/21/2057	142,832	0.9%
RAILAMERICA INC	9.250% 07/01/2017	142,058	0.9%
TOTAL IN TOP TEN HOLDINGS		\$ 1,873,907	12.1%

Private Equity

Adams Street Partners and J.P. Morgan

Shown below are some key characteristics of the private equity funds-of-funds in which the Long Term Fund is invested. Note that the data is as of the prior quarter-end.

Private Equity		
<i>Portfolio Characteristics as of March 31, 2009</i>		
	Adams Street Partners	J.P. Morgan
Total amount invested	\$ 15,959,249	\$ 11,015,074
Percentage of private equity program	58.2%	40.8%
Percent of commitments funded	65.5%	40.3%
Number of underlying partnerships	272	140
Number of underlying companies	5,579	1,333
<u>Primary/Secondary positions:</u>		
<i>Primary Investments</i>	87.0%	94.2%
<i>Secondary Investments</i>	13.0%	5.8%
<u>Subclass diversification:</u>		
<i>Buyouts</i>	51.0%	47.7%
<i>Venture Capital</i>	29.0%	21.7%
<i>Special Situations</i>	14.0%	11.9%
<i>Restructured/Distressed Debt</i>	4.0%	18.6%
<i>Mezzanine/Subordinated Debt</i>	2.0%	0.1%
<u>Geographic positions:</u>		
<i>United States</i>	77.9%	77.0%
<i>Western Europe</i>	16.5%	18.0%
<i>Asia</i>	3.4%	4.4%
<i>Other</i>	2.2%	0.6%
<u>Industry positions:</u>		
<i>Medical/Health</i>	17.0%	19.2%
<i>Computer</i>	15.0%	13.0%
<i>Consumer</i>	14.0%	20.0%
<i>Finance/Insurance/Real Estate</i>	10.0%	9.3%
<i>Communications</i>	10.0%	6.5%
<i>Other</i>	9.0%	1.3%
<i>Energy</i>	7.0%	4.1%
<i>Consulting/Other Services</i>	5.0%	6.4%
<i>Industrial Products</i>	4.0%	0.0%
<i>Manufacturing</i>	3.0%	13.1%
<i>Biotechnology</i>	3.0%	0.0%
<i>Electronics</i>	3.0%	2.1%
<i>Transportation</i>	0.0%	5.0%
TOTAL	100.0%	100.0%

Event-Risk and Deflation-Hedge Assets

U.S. Treasurys

Applied Security Analysis Program

This portfolio is to be a passively-managed separate account benchmarked to the Citigroup U.S. Treasury 1-10 Year Index. For tactical reasons, the portfolio has been maintained in “cash” since it was transitioned over from a broad-market bond portfolio in early 2006.

U.S. Treasurys		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	ASAP Treasurys	Citigroup U.S. Treasury
Standard deviation	1.2%	3.7%
Average quality	AAA	AAA
Duration (years)	0.1	3.8
Yield to maturity	0.2%	2.0%
Average coupon	0.2%	3.4%
Number of holdings	N/A	109

Applied Security – U.S. Treasurys:		
Holdings Report		
<i>As of June 30, 2009</i>		
Mellon Custodial Short Term Fund	Market Value	Percent of Portfolio
CASH	\$ 18,890,288	100.0%

Real and Inflation-Hedge Assets

U.S. TIPS

Applied Security Analysis Program

This portfolio is a passively-managed separate account benchmarked to the Citigroup Inflation Linked Securities Index.

U.S. TIPS		
<i>Portfolio Characteristics as of June 30, 2009</i>		
	ASAP TIPS	Citigroup ILS
Standard deviation	8.3%	8.1%
Average quality	AAA	AAA
Duration (years)	4.5	4.8
Yield to maturity	3.6%	3.7%
Average coupon	2.3%	2.3%
Number of holdings	24	27

Applied Security - U.S. TIPS:			
Top Ten Holdings			
<i>As of June 30, 2009</i>			
Holding	Coupon/Final Maturity	Market Value	Percent of Portfolio
US TREAS-CPI INFLATION INDEX	1.875%007/15/2013	\$ 2,199,469	9.3%
US TREAS-CPI INFLATION INDEX	2.375% 01/15/2027	2,194,257	9.3%
US TREAS-CPI INFLATION INDEX	3.000% 07/15/2012	1,836,097	7.7%
US TREAS-CPI INFLATION INDEX	2.000% 07/15/2014	1,680,939	7.1%
US TREAS-CPI INFLATION INDEX	2.375% 01/15/2025	1,633,127	6.9%
US TREAS-CPI INFLATION INDEX	1.375% 07/15/2018	1,583,831	6.7%
US TREAS-CPI INFLATION INDEX	1.625% 01/15/2015	1,385,472	5.8%
US TREAS-CPI INFLATION INDEX	1.875% 07/15/2015	1,252,641	5.3%
US TREAS-CPI INFLATION INDEX	3.625% 04/15/2028	1,125,394	4.7%
US TREAS-CPI INFLATION INDEX	2.000% 01/15/2016	1,009,866	4.3%
TOTAL IN TOP TEN HOLDINGS		\$ 15,901,093	67.0%

Opportunistic

GMO Emerging Illiquid Fund, L.P.:

Investment here is made through GMO's Emerging Illiquid Fund.

GMO Emerging Illiquid Fund, L.P.: <i>Portfolio Characteristics as of June 30, 2009</i>	
Number of holdings	GMO Emerging Illiquid Fund 79
<u>Major sector positions:</u>	
<i>Domestic Consumption</i>	38.7%
<i>Infrastructure</i>	19.4%
<i>Technology</i>	13.9%
<i>Real Estate</i>	10.4%
<i>Financial Services</i>	7.7%
TOTAL	90.1%

GMO Emerging Illiquid Fund, L.P.: Top Ten Equity Holdings <i>As of June 30, 2009</i>		
Company	Market Value	Percent of Portfolio
CNINSURE	\$ 204,846	5.0%
PERFECT WORLD	196,400	4.8%
MAGNIT OJSC	181,385	4.5%
XINYU HENGDELI HOLDINGS	170,591	4.2%
RURAL ELECTRIFICATION CORP	144,483	3.6%
BR MALLS PERTICIPACOES	127,899	3.1%
INDOGREEN INTL	121,226	3.0%
CHINA DISTANCE EDUCATION	118,058	2.9%
VISIONCHINA MEDIA	97,637	2.4%
TIME TECHNOPLAST	93,443	2.3%
TOTAL IN TOP TEN HOLDINGS	\$ 1,455,968	35.8%

GMO Emerging Illiquid Fund, L.P.: Top Country Holdings <i>As of June 30, 2009</i>		
Country	Market Value	Percent of Portfolio
CHINA	\$ 1,235,630	30.4%
INDIA	1,239,694	30.5%
THAILAND	304,843	7.5%
KOREA	223,551	5.5%
BRAZIL	195,099	4.8%
RUSSIA	186,970	4.6%
TOTAL	\$ 3,385,788	83.3%

Intermediate Term Fund: Composite

Fund-Level Constraints

There are currently no fund-level constraints for the Intermediate Term Fund other than asset allocation constraints described in the “Fund Overviews” section.

Intermediate Term Fund: Individual Manager Portfolios

The tables that follow provide various portfolio characteristics of individual manager portfolios, and in the case of active separately-managed fixed income accounts, information as to compliance with current investment constraints. These restrictions are as follows:

- Modified duration within +/- one year from the benchmark’s duration
- All securities must have a minimum quality rating of BBB (investment grade)
- Average portfolio quality of AA
- Maximum of 15% in dollar-denominated issues of foreign issuers (“Yankees”)
- Maximum of 25% in any one broad-market bond sector, U.S. Government/Agency sectors exempted (if an index has more than 25%, then up to 110% of the index weight)
- Maximum of 7% in any one issuer, U.S. Government/Agency issues exempted

U.S. Fixed Income			
<i>Portfolio Characteristics as of June 30, 2009</i>			
	Reams Asset Mgt	ASAP	Barclay’s Intermediate
Standard deviation	3.6%	3.2%	3.0%
Average quality	AA-	AAA	AAA
Duration (years)	4.0	3.5	3.5
Yield to maturity	6.8%	3.6%	3.9%
Average coupon	5.3%	5.1%	4.8%
Number of holdings	111	36	7,702
Yankee bond holdings	1.8%	2.4%	3.0%
Sector weightings:			
<i>U.S. Government</i> ¹	12.0%	30.1%	37.6%
<i>U.S. Government Mortgage</i>	12.6%	42.5%	42.4%
<i>Commercial Mortgage Backed</i>	18.1%	0.0%	3.7%
<i>Corporate & Private Placements</i>	53.3%	27.4%	15.8%
<i>Asset Backed</i>	2.3%	0.0%	0.5%
<i>Money Market</i>	1.7%	0.0%	0.0%
TOTAL	100.0%	100.0%	100.0%

¹ Note: U.S. Government includes U.S. Treasury and Agency issues.

Reams Asset Management: Top Ten Non-Government Holdings <i>As of June 30, 2009</i>			
Issuer	Coupon/Final Maturity	Market Value	Percent of Portfolio
NEW VALLEY GENERATION	5.572% 05/01/2020	\$ 1,243,895	3.6%
UBS COMMERCIAL MORTGAGE	4.885% 09/15/2030	773,720	2.3%
WACHOVIA BANK	5.506% 03/15/2045	745,227	2.2%
METLIFE INC	6.750% 06/01/2016	691,145	2.0%
WACHOVIA BANK	VAR RT 10/17/2044	678,608	2.0%
GENERAL ELECTRIC	5.900% 05/13/2014	627,730	1.8%
WACHOVIA BANK	4.875% 02/01/2015	566,320	1.7%
CITIGROUP BANKING	8.500% 05/22/2019	563,281	1.6%
CREDIT SUISSE	3.382% 05/15/2038	541,242	1.6%
CREDIT SUISSE	VAR RT 02/15/2039	537,007	1.6%
TOTAL IN TOP TEN HOLDINGS		\$ 6,968,175	20.4%

Applied Security: Top Ten Non-Government Holdings <i>As of June 30, 2009</i>			
Issuer	Coupon/Final Maturity	Market Value	Percent of Portfolio
BERKSHIRE HATHAWAY	4.600% 05/15/2013	\$ 259,788	2.8%
CANADIAN NATIONAL RAILWAY	6.800% 07/15/2018	221,584	2.4%
ORACLE CORP	5.000% 01/15/2011	209,299	2.3%
GENERAL ELECTRIC	5.250% 10/19/2012	205,980	2.2%
XTO ENERGY	6.250% 08/01/2017	157,015	1.7%
STAPLES	7.375% 10/01/2012	152,164	1.7%
UNITED HEALTH GROUP	5.375% 03/15/2016	139,972	1.5%
VERIZON GLOBAL	7.375% 09/01/2012	111,778	1.2%
MONSANTO CO	7.375% 08/15/2012	111,308	1.2%
CAMPBELL SOUP CO NT	6.750% 02/15/2011	107,177	1.2%
TOTAL IN TOP TEN HOLDINGS		\$ 1,676,065	18.2%

Multi-Asset Portfolio <i>Portfolio Characteristics as of June 30, 2009</i>		
Asset Class/Vehicle	Index or Manager	Characteristics¹
U.S. Large Cap Equities/iShares S&P 500 ETF	S&P 500	Page 29
Non-U.S. Equities/iShares MSCI EAFE ETF	MSCI EAFE	Page 34
U.S. High Yield/STI Classic Seix High Yield Fund	Seix Advisors	Page 37
U.S. TIPS/iShares Lehman TIPS Bond ETF	Lehman TIPS	Page 40 ²

¹ Investment characteristics for each of these indexes or active portfolios can be found on the pages listed.

² Investment characteristics for the Lehman TIPS index are similar to those for the Citigroup ILS index.