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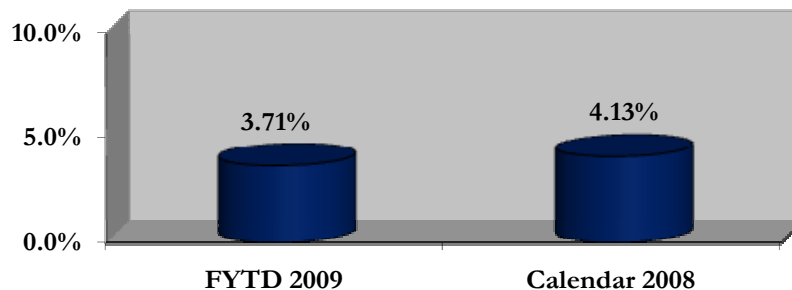
Ken Lambert
Investment Officer

PERS Generates Competitive Returns in Challenging Markets

We are now 18 months into one of the most difficult stock markets in history. While we continue to be focused on total returns and the continued long term health of PERS' investment program, it is also important to track relative returns to evaluate the Board's investment strategy during these challenging markets. We are pleased to report that on a relative basis, PERS' investment strategy has done a better job preserving capital than most large public pension plans.

For calendar year 2008, PERS outperformed 87% of large public pension plans. Through the first six months of fiscal year 2009 the plan did even better, outperforming 91% of its peers. Perhaps even more important than the rankings are the returns. The chart below shows PERS' percentage outperformance versus the average public plan.

PERS' % Return versus Median Large Public Pension Plan
Periods ended December 31, 2008
Net of fees



To put this in dollar terms, for the fiscal year to date period (6 months), PERS protected \$820 million more capital than a similar sized, median ranked pension plan. While this can be small consolation when overall returns are negative, it is critical to protect every dollar possible in a negative return environment.

PERS' strong relative returns are a result of the Board's simple, transparent and focused investment strategy. The fund emphasizes higher quality assets such as blue chip U.S. and international stocks, treasury bonds, higher quality corporate bonds and fully leased real estate properties.

In the not so distant past, these "plain vanilla" assets were criticized for not being sophisticated enough for institutional investors. However, we believe they are the most appropriate investments for a public pension plan and disciplined investors can generate superior

returns with these assets. Reinforcing this philosophy, since PERS' performance inception (24 ½ years), the fund ranks as one of the lowest risk large public pension plans, with a risk adjusted return that outperforms 83% of PERS' peers.

In summary, the things we can control (asset allocation and manager structure) have performed well and the things we can't control (the overall level of the capital markets) have performed poorly. While we continue to be focused on the negative returns generated by the market, we are pleased with the relative performance of the fund compared to its peers.