

INVESTMENT ADVISORY COMMITTEE MEETING

December 1, 2011

STATE OF MICHIGAN RETIREMENT SYSTEMS
QUARTERLY INVESTMENT REVIEW



Andy Dillon, State Treasurer

Prepared by Bureau of Investments
Michigan Department of Treasury

INVESTMENT ADVISORY COMMITTEE MEETING

December 1, 2011

Agenda



- 9:30 a.m. Call to Order and Opening Remarks
- 9:45 a.m. Approval of Minutes of September 1, 2011, Meeting
- 9:50 a.m. Performance for Periods Ending September 30, 2011
- 10:00 a.m. Current Asset Allocation Review
- 10:10 a.m. Capital Markets Overview
- Economic and Market Review and Outlook – *File*
- 10:20 a.m. Review of Investment Reports
- Alternative Investments
 - Absolute and Real Return/Oppportunistic
 - Active Domestic Equity
 - Fixed Income
 - Real Estate
 - International Equity
 - Indexed Domestic Equity
- 11:30 a.m. Basket Clause – *File*
- 11:35 a.m. Adjournment

2011 Meeting Schedule

Thursday, December 1, 2011

2012 Meeting Schedule

Thursday, March 1, 2012

Thursday, June 14, 2012

Thursday, September 6, 2012

Thursday, December 6, 2012

All meetings start at 9:30 a.m.

INVESTMENT ADVISORY COMMITTEE

The Investment Advisory Committee held its quarterly meeting on Thursday, September 1, 2011, at the Bureau of Investments, Great Lakes Conference Room, 2501 Coolidge Road, Suite 400, East Lansing, Michigan.

Members Present:

David G. Sowerby, Chairman
Allan R. Pohl, LARA
Phillip J. Stoddard, DTMB

In attendance from the Department of Treasury: Andy Dillon, Jon M. Braeutigam, Robert L. Brackenbury, Gregory J. Parker, Karen Stout, Brian Liikala, Richard Holcomb, Peter Woodford, Paul Nelson, Jack Behar, Jim Elkins, Giles Feldpausch, Travis Haney, Amanda Ellis, Marge McPhee, and Emma Khavari.

Others in attendance: Rebecca Gratsinger, Vinod Khosla, Samir Kaul, Akram Boukai, Molly Jason, Jason Diotte, Renaye Manley, June Morse, Frank Cody, Ellen Hoekstra, and Joe Curtin.

Call to Order and Opening Remarks

Chairman David G. Sowerby called the September 1, 2011, meeting to order at 9:32 a.m. He began by noting that the market was off about 15% through August 8th, then had a respectable rally off the lows of 8%-9%. The Russell 2000 dropped 20% from close to close but the S&P 500 did not. He noted that the market has felt and acted like a bear market particularly in July and August with the average stock in the S&P 500 off about 25% from its 52-week high. It is difficult for the equity markets and there is plenty of risk around the world. He stated that the 10-Year Treasury returned 13% which is almost exactly what the return was a year ago.

Chairman Sowerby noted that the focus of the September Investment Advisory Committee (IAC) meeting would be: from the bear market in stocks, the bull market in Treasuries – what is being done to be opportunistic, to be proactive. The goal: being able to look back six months/twelve months from today and ask, what was done and what was the rationale used to try to take advantage of mispricing or opportunity in the market. He shared his thoughts about being proactive in markets that in the future will be choppy and with not just one-way up to 7% or 8% return per calendar year. He noted that just as important is the longer-term strategic positioning of the portfolio with asset allocation. These items should be discussed at this IAC meeting.

Chairman Sowerby turned the meeting over to Treasurer Dillon. Treasurer Dillon greeted everyone and noted that while the SMRS' rankings are not very exciting, staff should not be obsessed with the ranking. However, in a year staff should be able to say that

changes were made that took advantage of what was happening today. He noted the book that Reinhart and Rogoff wrote which indicates over the next ten years there will be slow growth, moderate inflation, and more frequent recessions. Treasurer Dillon discussed the point that behavior is historically-driven; however, this seems to be a new era which is driven, in large part, by the world-wide sovereign debt that lays the foundation of the next ten years of slow growth, moderate inflation, and more frequent recessions. Treasurer Dillon also expressed concerns about the condition of Europe.

Treasurer Dillon discussed the possibility of re-casting the portfolio to win. He expressed that continuing to look backwards and what happened in the past may hinder the portfolio; today the vision should be to position the portfolio to improve the ranking and to win. Chairman Sowerby thanked Treasurer Dillon.

Approval of Minutes of June 1, 2011

Chairman Sowerby asked for a motion to approve the June 1, 2011, minutes. A motion was made by Mr. Phillip J. Stoddard and seconded by Mr. Allan R. Pohl to accept the minutes as read. The motion passed unanimously.

Performance

Mr. Jon M. Braeutigam reported on the performance of the SMRS' portfolio for the time period ending June 30, 2011. He reviewed the Mission Statement of the BOI noting that the Bureau invests for beneficiaries. The monies that are invested are for the common good of the beneficiaries, there is no personal gain for the staff, all decisions are made with the beneficiaries in mind. He also noted that investing in Michigan companies, where the risk and return is commiserate with other outside investments, is encouraged in the Investment Act.

Mr. Braeutigam discussed the new *investMichigan!* Mezzanine fund. This is a \$130 million Michigan-based mezzanine fund to be invested in mezzanine debt investment opportunities. This is in partnership with the Small Business Administration, which will provide most of the funding along with Dow Chemical. This entails no new commitments from the Defined Benefit plan. It is believed this will be a win-win program; however, it will take time to invest this money and to realize returns.

Mr. Braeutigam noted the one-year return, which was an amazing 21.7%. This high level of return has not been seen in the last decade. He also noted that all of the public funds had very good returns. The SMRS' three-year number is down about 100 basis points from the peers, of which 70 basis points was due to the sale of \$1.1 billion when the S&P was trading at about 700 to de-risk the portfolio and the other 30 basis points was due to the SMRS' asset allocation. He discussed the importance of every asset manager head to be pro-actively assessing the markets going forward. He reviewed the domestic equities where the one-year has been challenging, while the three-year and five-year returns have been good. The small and mid-cap active portfolios are externally managed. The small-cap managers have done well, but the mid-cap managers have

underperformed. He noted that alternative investments has had a great run for the decade and that real estate, while it lags the public markets, had a very attractive one-year return. The portfolio is well diversified and has less correlation to the stock market. This has been one method of reducing risk in the portfolio. In international and U.S. stocks, the portfolio managers continue to look for something less correlated to improve the risk-adjusted return of the whole portfolio.

Mr. Braeutigam talked about the bonds returns, which had a great quarter. Bonds are more conservative, which has helped in the three-year and in the five-year returns. Being conservative has been positive in the context of the whole portfolio. The portfolio consists of 14% bonds while peers have 25% bonds. Bonds need to be a little safer as they are insurance on a rainy day. The SMRS' portfolio makes \$2.6 billion of payments to beneficiaries every year. He concluded noting that the fiscal year-end calculations the actuary uses to determine employer contributions to the State was at about 13% through the first three quarters of fiscal year 2010-11, with August being down about 5% which puts the SMRS' portfolio at about 8% fiscal year-to-date estimate.

Asset Allocation

Mr. Braeutigam reported on the SMRS' asset allocation. The SMRS portfolio for the time period ending June 30, 2011, had a market value of \$51.621 billion. He stated that the majority of the money invested is for the Public School Employees, then a large part for the State Employees, and to a lesser extent the State Police and Judges. The Judges have a fully-funded system mainly because the judges work longer and do not retire at age 50 or 55. He noted that liability management is a very important issue; it is not just about investing, there are \$70 billion of liabilities and \$51 billion of assets. He discussed U.S. debt, the unfunded liabilities and the fact that there is no way to pay for them. This is not a fun cycle and the books must be looked at seriously with serious decisions to be made, noting that putting these decisions off for the future will only compound the problem and make the situation even worse.

Mr. Braeutigam noted that alternative investments returned, on a net basis, \$364 million of cash which along with the \$400 million raised by selling fixed income was used to pay benefits of \$724 million for the last three months. This is over and above employer contributions. He discussed the asset allocation targets which were decided upon from the asset liability study that was done for the Public School Employees after the early out last year. The liability study will be done for the State Employees after the actuarial reports are completed at the end of the fiscal year. The asset allocation targets are updated every two years. There can be shifts tactically, but not usually directionally or strategically until the new asset allocation is set. He concluded that it is anticipated that there will be an increase in absolute return and the real and opportunistic bucket, which will help to further diversify the equities.

Capital Markets Overview

Mr. Greg Parker began his discussion of the capital markets by looking forward. He explained what can be expected in the capital markets over the next 12 months and used

this information as an example of how decisions are made and how the Bureau operates. Going back 12 months, there was a 16% correction in equity markets, it was noted that the economy was still strong and there was talk about a recession, yet it was felt that this talk was unjustified. Overall, it was felt that the equity markets would produce strong results; and when reviewing the performance, the equity markets did exactly that with a 20% return on the S&P 500, mid-caps returned 40%, and real returns had between 25% and 30% returns. He noted that in today's environment the GDP growth is considerably lower than it was 12 months ago and the economy is barely growing at all. The ISM Manufacturing Index 12 months ago was around 60, today it is expected to be around 48. All leading indicators point toward modest, tepid growth, if growth at all. He commented that Europe is being forced to adopt austerity measures, emerging economies are adopting policies to manage capital flows in order to deal with the rising inflation. All this leads to a different economic backdrop today than was witnessed a year ago.

Mr. Parker noted that in the past couple of meetings it was mentioned that the pace of capital appreciation in the public equity markets had been slowing. There was a correction in August indicating that the pace of appreciation is still on a modest to perhaps a downward tract. He reviewed the risk/return profile for fixed income and cash where cash is yielding a negative rate-of-return. When looking at the rate that cash is earning, close to zero, and the rate of inflation, which is over 3%, purchasing power is lost by holding cash. In fixed income instruments, the yields are down, but again the risk of economic growth or contraction is higher. He noted that the public real estate markets have shown some resiliency in the recent downward equity markets. Because of the lag in the real estate markets it is anticipated that the rates-of-return will be high single digits possibly low double digits.

Mr. Parker noted that 12 months from now, it is unlikely that there will be a 21% plus rate-of-return on the fund because the economic backdrop is not conducive to generate the kinds of equity rates-of-returns as was experienced from June 2010 to June 2011. He expressed the belief that the normal rate-of-return of 8% over the next 12 months is an achievable goal stressing that diversification and selectivity will be important; however, it will be the asset allocation that will ultimately drive the 8%.

Economic and Market Review and Outlook

Chairman Sowerby stated in the spirit of time the Economic and Market Review and Outlook will be received and filed.

Investment Reports

Alternative Investments – Mr. Peter Woodford reported on the SMRS' alternative investments. The total market value as of June 30, 2011, was \$10,735 million. He noted that the mark-to-marked valuation increased 6.4% for the quarter. The second quarter offered ample opportunity for U.S.-based buyout shops to exit investments through the mergers and acquisitions and IPO market. The record pace of divestitures is a strong indication that sponsors are taking profits off the table. Both high unemployment and

macro-economic uncertainty, and the European debt crisis continue to weigh on the market. He noted that the distributions for the second quarter were \$711 million, which is a slight decrease from the prior quarter. The distributions for the first half of 2011 versus the first half of 2010, distributions more than doubled. He noted that there were five new commitments made during the second quarter.

Mr. Woodford continued noting that purchase price multiples and equity contributions rose for both mid-market and large-cap deals. Middle market deals and purchase price multiples were around 7.9x EBITDA and large-cap deals were 8.8%^x EBITDA. He stated that the recent volatility in the global credit equity markets is unlikely to derail the leverage buyout business, but continued economic weakness will impact deal making and future exits. The objective, going forward, will be to narrow the focus on the best performing managers. It appears this is a very promising market for small and middle market buyout funds and mezzanine debt. The high yield and leverage loan capital markets continue to remain open and on reasonable terms which provides opportunities for maturity extensions, refinancing, and dividend recaps. The distressed debt opportunities have diminished in the U.S.; the wall of debt still exists, but there is ample liquidity and low default levels which indicate there are fewer investment opportunities and lower rates-of-return.

Absolute and Real Return – Mr. Jim Elkins reported on the SMRS' absolute and real return. The market value of the absolute and real return portfolio as of June 30, 2011, was \$2,670 million, which was a solid performance. Returns were up 2.75% through year-to-date. However, a difficult July and August resulted in expectations for September being a little more flat. He noted that performance was primarily driven by fixed income arbitrage and event-driven managers. The most significant stress coming from credits of European financials that sold off as a result of the Greek bailout concerns. Convertible arbitrage was down during the quarter as a result of selling pressure that widened the spread of the strategy. Also, noted was the full redemption that was requested from a multi-strategy asset manager that was involved in insider trading in the fall of 2010. This manager was terminated and the multi-strategy fund is expected to wind down sometime after September 30, 2011. He noted that there has been a search for a fund-to-funds manager, the results of that search will be discussed at the December IAC meeting.

Mr. Elkins discussed the enhanced passive commodity strategies which have had a good environment and have continued to significantly outperform the benchmark this year by nearly 125 basis points. He talked about the direct lending strategies where there is approximately \$450 million committed at the present time and the possibility of co-investing where there is a need for additional capital. These are high quality, heavy covenant loans, Libor plus 600 loans with the loan duration of about four years. There may be more exposure added for an opportunistic play for the overall portfolio. The ability to make high single digits, low double digits in a lending environment is available because banks and specialty lenders have had to retreat from this space. It was believed that the biggest challenge would be that the banks and specialty lenders may start to come back to the markets; however, they would not be able to deploy capital in a draw down style fund as efficiently as needed to be fully invested. Chairman Sowerby

requested that in the December meeting review correlation, fund-to-fund, and the S&P 500.

Active Domestic Equity – Mr. Jack Behar reported on the SMRS' active domestic equity investments. The market value for the active domestic equity holdings as of June 30, 2011, was \$17,971 million. He briefly discussed the macro environment where there are a lot of risks. The equity markets continue to look attractive relative to long-term bonds, with the S&P 500 poised to return close to 9.5% over the long term, versus the 30-year Treasury at 4.4%. He noted that there are risks, and the 9% to 10% yields do not come without taking risks. He also noted that large cap stock appear to be undervalued relative to small and mid-cap stocks.

Mr. Behar discussed internal management noting how the combined portfolios are positioned with a mix of attractively valued cyclical and defensive stocks. He noted that from a sector standpoint, the portfolio is overweight the large-cap technology sector. He believes this is a good example of a sector that offers both defense with the attractive balance sheets, solid free cash flow, and very strong growth characteristics relative to the rest of the economy. He noted that this is the strategy used for positioning the portfolio.

Chairman Sowerby requested that at the December IAC meeting Mr. Behar be prepared to discuss the play-to-win strategy attribution analysis on where alpha has prevailed, where it has lagged.

Chairman Sowerby asked since Vinod Khosla is at the meeting and pressed for time, that he be allowed to discuss his presentation before finishing the remainder of the asset class administrators.

Special Presentation – Khosla Ventures – Mr. Vinod Khosla

Mr. Khosla began his presentation by asking the members for specific items that they would like to have discussed. There were several items requested: what are some changes and in what industries and what is in the future for these industries; regulations – how it is encumbering capital formation or growth and is Congress getting in the way of things; hear your view on the different alternative energy technologies – are they cost competitive, what is the future, what will prevail, and what will the world look like; highlights on investments in Michigan made by Khosla Ventures; and venture capital versus your expectations on buyout.

Mr. Khosla discussed the chart provided regarding the green technology portfolio which is divided into four major areas with three sub classes in each area. One has to do with coal, whether it is cleaning up coal or whether it is replacing coal, it is making it better, more cost effective, fundamentally it is about electricity generation. Second is oil. Third has to do with efficiency; electrical efficiency, as in lighting or mechanical efficiency, as in automobile engines. Fourth would be materials. Water is the most basic material and is a pretty important investment theme, but so is the replacement of most chemicals. This is a very broad portfolio.

Mr. Khosla noted some companies head quartered in Michigan in which Khosla Ventures invests. Not included on the list is a new investment just made to Acrom. He discussed a few of the individual companies and the product/service in which the company specializes; they are: Danoteck which makes permanent magnet generators for wind turbines; and EcoMotors which is developing a new engine architecture which NaviStar announced last February they would adopt the EcoMotors engine architecture. He noted the benefits of the new motors which would provide 50% more efficiency, which would cause a shift in trucking and oil consumption and eventually there would be dramatic shifts in world markets. He discussed an example in the shift in technology regarding the use of routers for the Internet. He recommended a book called *Future Babble* by Dan Gardner for anyone in investing.

Mr. Khosla discussed a presentation that was given at Stanford University looking at energy. He noted that he believed most of the forecasts or assumptions about energy 10 to 15 years from now are fundamentally flawed. As an example when Soraa does a light bulb that uses 75% less electricity and has less than a two year payback, it shifts the demand for electricity. He further noted that in trucking, if the engine is not the more efficient engine, no trucker is going to buy it – it is all about cost. He discussed the shift in computers and how some companies did not make the necessary changes and went out of business. IBM shifted from building computers to services, which is their principle business today. He also noted the shift in pharmaceuticals in that at one time the companies were not interested in biotechnology. Today, that is practically the only area in which they invest. He noted that the shifts that result in radical changes are all about tail risk; the financial crisis in 2008 was about tail risk, mis-estimating tail probabilities in energy, the same thing is happening now and of those tail risks many will fail, but the few who do succeed will have a real impact and completely transform these businesses.

He noted an example of what he believes will dramatically transform Michigan. That is: they own a little company which was working on ethanol projects. He received a call from someone in Europe stating everything he was doing in ethanol was wrong. Instead of hanging up, he asked for more details. They informed him that there was a process which would turn wood chips into oil. This was only three or four years ago. The technology has worked out and the company went public about three months ago. This technology changes where the next barrel of oil will come from. Michigan owns four million acres of forest which could be the biggest oil well. He noted the example the small facility in Texas and now there is a second facility in Mississippi. They took pine chips, located in an area where paper mills had shut down and have now created a thriving business. Michigan, taking the paper mills that have shut down or the four million acres of forest, could produce between five and 20 million tons of bio mass a year – approximately 40 million barrels of oil at \$100 per barrel. This would also produce forestry jobs and valuable income for Michigan.

He briefly commented on regulation and where to build the first facility for Sakti3, which produces very unique batteries for automotive and other applications, like the iPhone. There have been several offers on the table, one of which is from Germany, and a lot of offers in the United States to build the facility in their area. This is a difficult decision and

regulation is part of that decision on the negative side. Some regulations help in markets and some really hurt markets. He discussed the world views of regulations, their benefits and problems. He noted that he views renewable markets as not regulated markets, but ones where you can use regulation to get started.

Mr. Khosla noted that he believes the Internet and mobile world is not done yet and there is a very dramatic acceleration of innovation. There are dramatic shifts going on in retail already. Such as Groupon popped out of nowhere and suddenly customer behavior has changed on how they buy things. People have forgotten that four or five years ago the smart phone did not exist. There has been a shift in the music business; NetFlix is delivering over the Internet to customers. This will be direct competition for HBO.

Mr. Khosla concluded his presentation discussing another area shifting, which is the idea of re-creating the hamburger meat. One would think this is not a big technology market, it is \$100 billion market and there is a chance that one can produce it at 1/5th the cost by going directly from plant protein. Taking plant protein like corn, feeding it to cattle and then harvesting the meat this process is about 10% efficient. There is a Stanford professor who is a vegan and decided he wants plant protein to taste as good as beef. He is working on developing a product that tastes as good as the real beef, but is made of plant protein and not soy, you can put it on the grill, cook and eat it, and reduce the cost by 50% of producing beef.

Thank you all very much. I hope I was helpful in answering questions. I apologize, we have to get to California.

Fixed Income – Mr. Paul Nelson reported on the SMRS' fixed income portfolio. The market value of the fixed income portfolio as of June 30, 2011, was \$7,123 million. Mr. Nelson stated that Treasuries are near historic lows and spreads are still somewhat wide, but narrowing. There is a high slope to the yield curve. At the present time, one and two year paper is being sold. He noted that within the last month, there was \$160 million government sold where the rate-of-return was a little over 1% and this was re-invested at about 3.5%. This does not sound like a lot, but it is a 250 basis points increase. The strategy is being relatively short so that at such time as interest rates go back up, the portfolio will not be substantially damaged thus providing a chance to increase the rate-of-return on the portfolio.

Mr. Nelson discussed the yield curve. The three year was 0.55, the five year was 1.35, the 10 year was 2.82, and the 30 year was 4.12. Reviewing the numbers, if rates go up 1% then your 30-year loses 15% in the market.

Real Estate – Mr. Brian Liikala reported on the SMRS' real estate portfolio. The market value for the real estate portfolio as of June 30, 2011, was \$4,765 million. Mr. Liikala noted this is the fifth consecutive quarter of a strong real estate return, from the economic recovery. This is based primarily on appreciation, not necessarily on revenue growth, except in the case of apartments, which are by far leading the way in rent growth. Rents

are being increased 10% to 12% in some markets such as Denver and Seattle. Renting is favored over buying.

Mr. Liikala discussed the strategy for the portfolio over the next two years and what the market is going to look like. The portfolio is going to be more actively managed with shorter term investments. The risk must be managed and the move to liquid markets must be made, most of which are major markets with a few secondary markets. Moving toward those markets will help liability needs for the fund. The real estate division will attempt to increase exposure in the West where the portfolio is underweighted by the benchmark and in the mid-Atlantic.

Mr. Liikala noted that the first commitment in Brazil has been made. Investments in China, another emerging market, have done well in the portfolio. The portfolio has always been underweighted in Europe because of unfavorable demographics. He also noted that Brazil has a much better, younger average age group than China, which support real estate growth.

International Equity – The total international equity exposure as of June 30, 2011, was \$7,326 million. Chairman Sowerby stated in the spirit of time the international equity report will be received and filed.

Indexed Domestic Equity – The market value of the indexed domestic equity portfolio as of June 30, 2011, was \$6,108 million. Chairman Sowerby stated in the spirit of time the indexed domestic equity report will be received and filed.

Basket Clause – The fair market value of the basket clause investments as of June 30, 2011, was \$6,508 million or 12.607% of the total portfolio market value of \$51.621 billion. Chairman Sowerby stated in the spirit of time the basket clause report will be received and filed.

Next Meeting Date and Adjournment

Chairman Sowerby asked for a motion to adjourn the September meeting. A motion was made to adjourn by Mr. Phillip J. Stoddard and seconded by Mr. Allan R. Pohl. All were in favor. Meeting adjourned at 12:36 p.m.

Approved:

David G. Sowerby, Chairman

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

PERFORMANCE

**FOR PERIODS ENDING
SEPTEMBER 30, 2011**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Jon M. Braeutigam
Chief Investment Officer
Bureau of Investments**

Bureau of Investments

Mission Statement



The Bureau of Investments provides quality investment management services, professional expertise, and advice to the State Treasurer as fiduciary of the State of Michigan Retirement Systems and Michigan boards and agencies. The Bureau strives to provide consistent and cost-effective management of funds to achieve competitive investment returns that meet objectives within an acceptable level of risk for the benefit of employees, retirees, and citizens of the State of Michigan.

State of Michigan Retirement Systems

Goals



*Meet or exceed actuarial assumption
over the long term.*

Maintain sufficient liquidity to pay benefits.

*Achieve optimal rate of return possible
with prudent levels of risk.*

Objectives



Diversify assets to reduce risk.

*Perform in the top half of the public plan
universe over the long term.*

*Exceed individual asset class benchmarks
over the long term.*

Operate in a cost-effective manner.

Market/Economic Environment

Market Environment

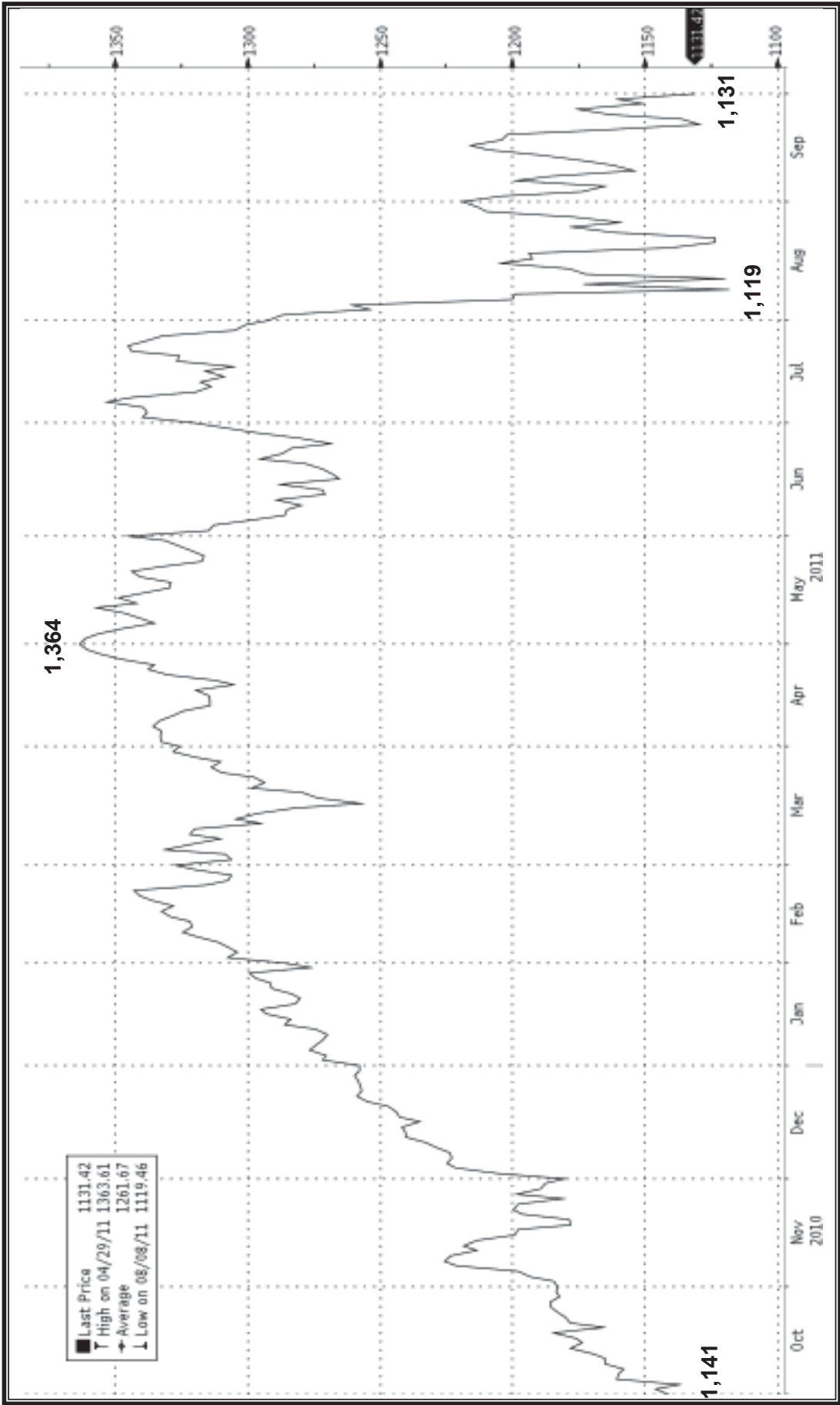
	<u>12/31/10</u>	<u>2010 Price Change</u>	<u>9/30/11</u>	<u>YTD Price Change</u>
DJIA	11,578	+11.02%	10,913	-5.74%
S&P 500	1,258	+12.78%	1,131	-10.04%
NASDAQ	2,653	+16.91%	2,415	-8.95%
BMI-EPAC (Local)	189.5	+4.57%	156.3	-17.51%
BMI-EPAC (USD)	242.3	+7.57%	200.9	-17.10%
	<u>12/31/10</u>	<u>2010 bp Change</u>	<u>9/30/11</u>	<u>YTD bp Change</u>
30-Year Treas.	4.34%	-30 bp	2.92%	-142 bp
10-Year Treas.	3.30%	-54 bp	1.92%	-138 bp
5-Year Treas.	2.01%	-67 bp	0.95%	-106 bp
2-Year Treas.	0.60%	-54 bp	0.25%	-35 bp
26-Week T. Bill	0.19%	-1 bp	0.06%	-13 bp
13-Week T. Bill	0.13%	7 bp	0.03%	-10 bp
Fed Funds	0.25%	0 bp	0.25%	0 bp
Prime Rate	3.25%	0 bp	3.25%	0 bp

Economic Environment

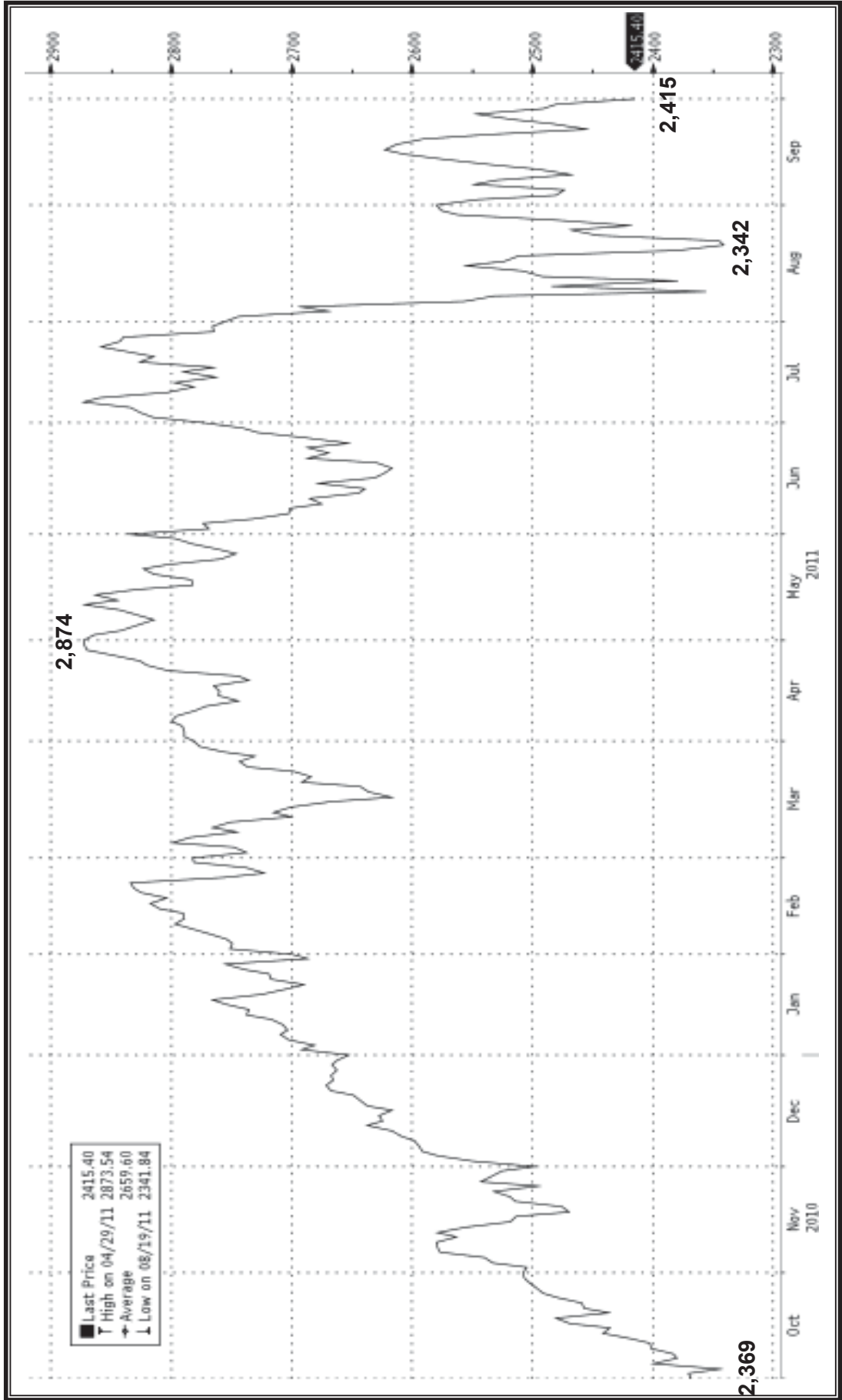
- Third quarter real GDP increased by 2.5% as consumer spending waivered. The second quarter came in at 1.3%.
- Core inflation was up 0.1%, and CPI was up 0.3%. Ten-year breakeven tips yield was at 1.7%.
- Housing starts averaged 615,000, up from an average of 575,000 in the second quarter. Retail sales were up 1.1% year-over-year.
- Unemployment was 9.1%, down from 9.2% in the second quarter. Initial claims for unemployment averaged 413,000 versus 425,000 in the second quarter.
- S&P 500 fell 14.3% from second quarter levels, while at \$79.20 per barrel, oil fell by 19%.
- U.S. budget deficit as a percent of GDP rose to 8.6% from 8.4%.
- Effective Fed Funds rate fell to 6 basis points.

S & P 500 INDEX

ONE YEAR ENDING SEPTEMBER 30, 2011

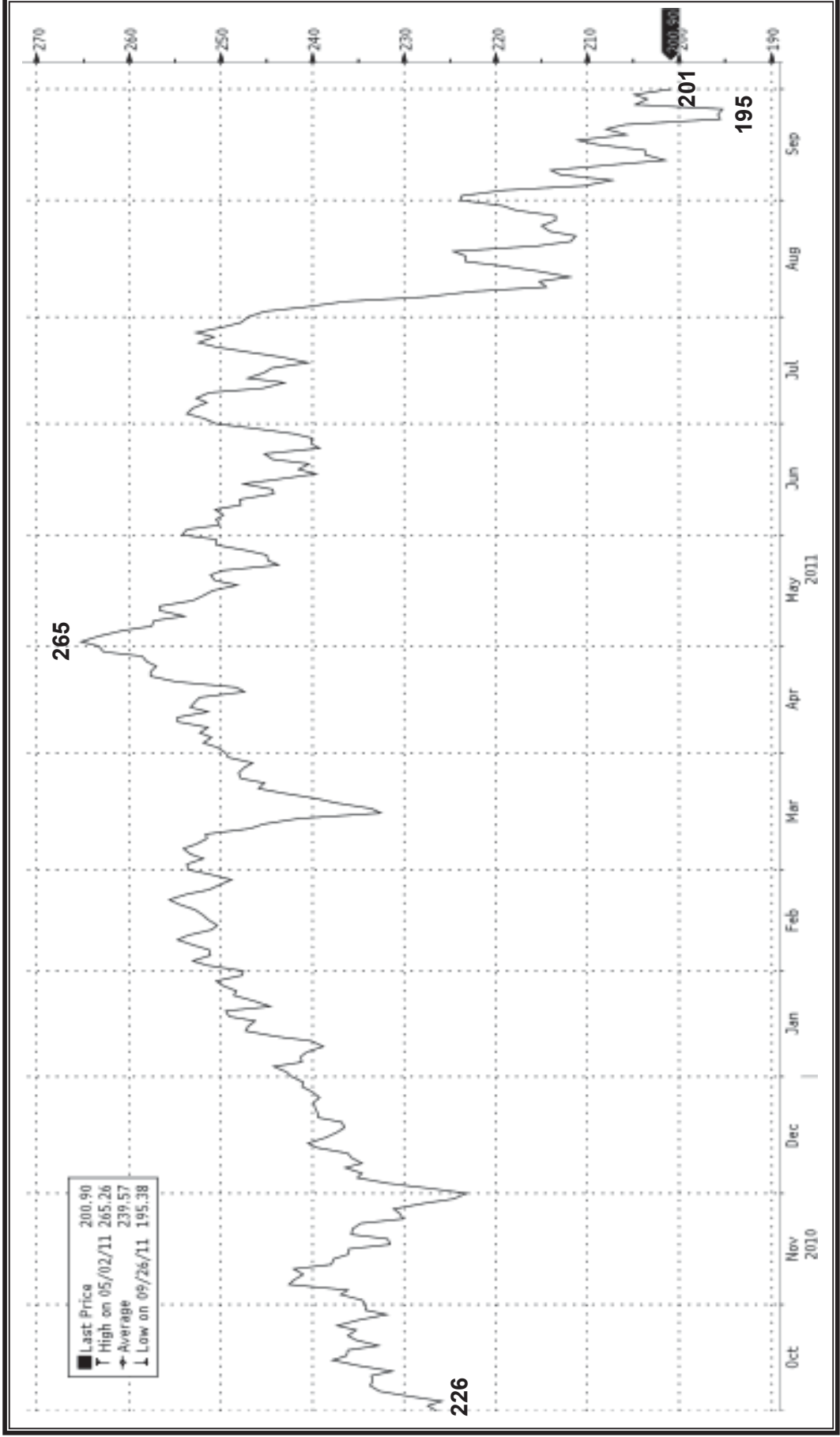


NASDAQ ONE YEAR ENDING SEPTEMBER 30, 2011



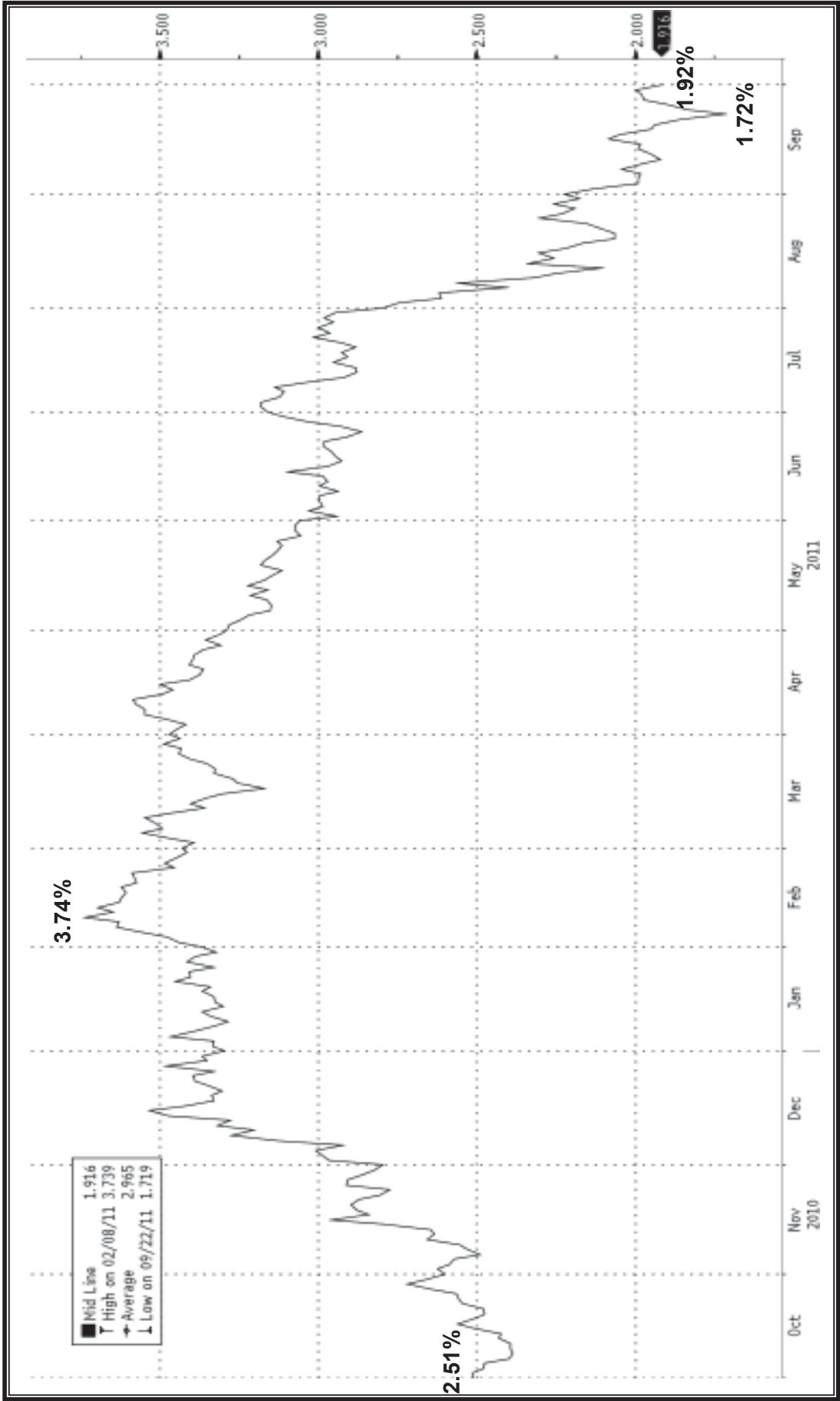
INTERNATIONAL — S&P/CITIGROUP BMI EPAC (USD)

ONE YEAR ENDING SEPTEMBER 30, 2011

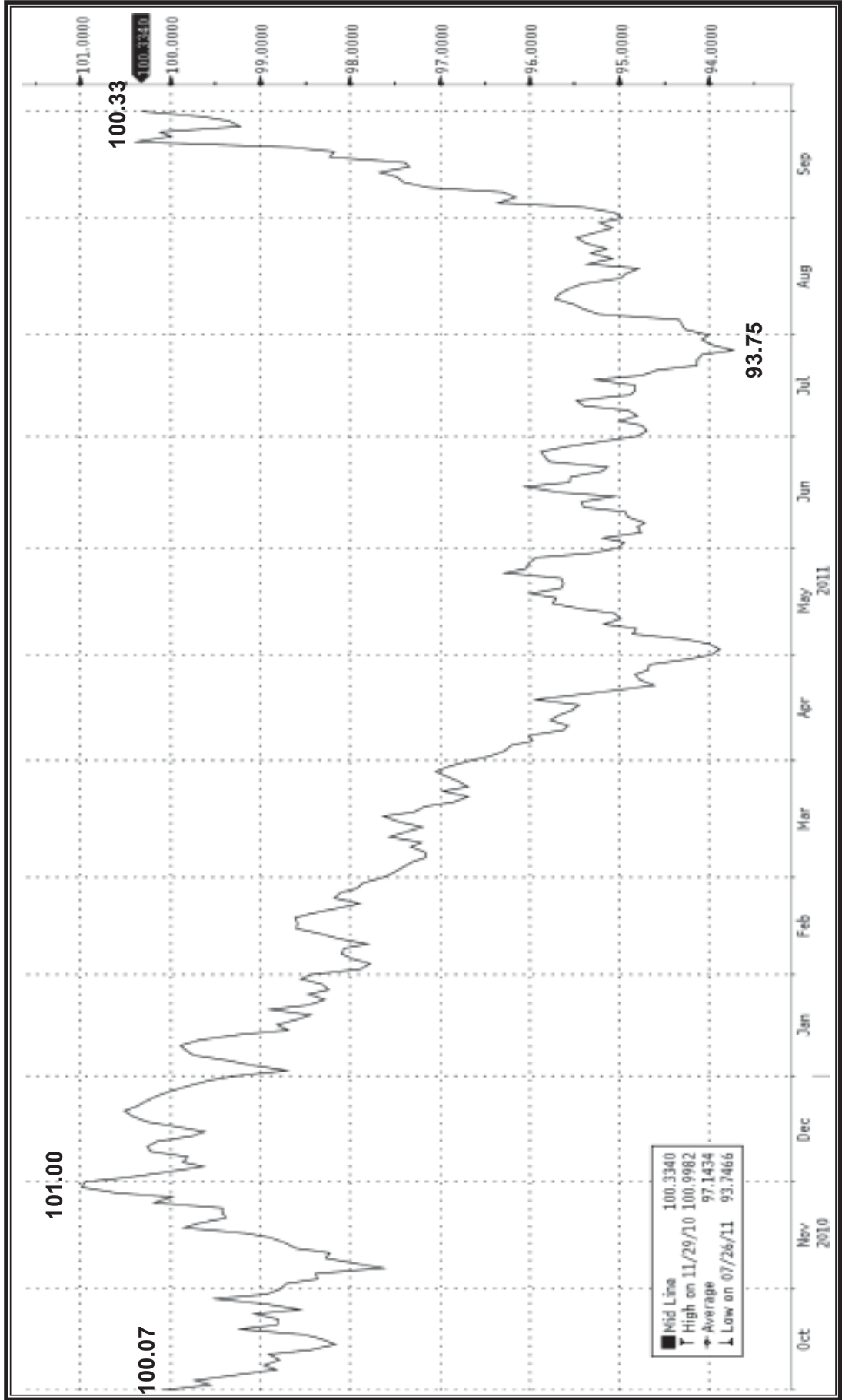


TEN-YEAR U.S. TREASURY NOTE YIELDS

ONE YEAR ENDING SEPTEMBER 30, 2011



U.S. DOLLAR TRADE-WEIGHTED INDEX ONE YEAR ENDING SEPTEMBER 30, 2011



**State of Michigan Retirement Systems
Performance By Trailing Four Quarters
Total Rates of Return**

<u>FUND</u>	<u>FOURTH</u> <u>QTR. 2010</u>	<u>FIRST</u> <u>QTR. 2011</u>	<u>SECOND</u> <u>QTR. 2011</u>	<u>THIRD</u> <u>QTR. 2011</u>
MPSERS	6.21 %	4.89 %	1.98 %	-6.15 %
MSERS	6.21 %	4.86 %	1.95 %	-6.25 %
MSPRS	6.26 %	4.92 %	2.00 %	-6.16 %
MJRS	6.43 %	4.81 %	1.75 %	-6.55 %
Large Cap Core	6.69 %	4.07 %	-0.73 %	-15.93 %
Large Cap Growth:				
Large Cap Growth	10.84 %	3.40 %	-0.12 %	-9.85 %
Large Cap Dividend Growth	24.70 %	-7.35 %	-1.81 %	-20.50 %
Aletheia	14.03 %	4.36 %	-3.25 %	-12.03 %
Edgewood	8.94 %	7.41 %	0.66 %	-10.66 %
Large Cap Value:				
Large Cap Value	8.45 %	6.19 %	-0.69 %	-13.39 %
LSV	10.02 %	8.20 %	-1.13 %	-18.25 %
Wasatch	9.76 %	6.17 %	-1.54 %	-16.75 %
Epoch	10.30 %	7.22 %	0.81 %	-16.09 %
Diamond Hill	9.92 %	5.73 %	0.80 %	-14.56 %
Mid Cap Value:				
Artisan	9.32 %	10.63 %	0.37 %	-14.38 %
Cramer Rosenthal	15.93 %	5.72 %	1.49 %	-22.30 %
Mid Cap Growth:				
Rainier Investment	14.71 %	9.59 %	0.38 %	-21.46 %
Wellington	15.86 %	9.98 %	-0.85 %	-26.08 %
Mid Cap Core:				
L.A. Capital	12.05 %	9.61 %	-1.36 %	-18.30 %
Champlain	12.29 %	9.32 %	1.49 %	-16.68 %
Munder	13.50 %	8.08 %	1.61 %	-17.69 %
Small Cap Growth:				
Pier Capital	16.01 %	13.33 %	-1.28 %	-25.85 %
Small Cap Value:				
Fisher	15.54 %	10.57 %	-3.38 %	-25.17 %
GW Capital	18.43 %	12.78 %	-0.33 %	-28.08 %
Donald Smith	13.55 %	3.80 %	-1.99 %	-17.66 %
Opus Capital	13.53 %	8.14 %	-4.26 %	-18.19 %
Small Cap Core:				
Champlain	15.21 %	8.99 %	0.63 %	-15.69 %
NorthPointe	17.21 %	5.80 %	-0.89 %	-26.67 %
Multicap:				
Attucks	11.94 %	6.70 %	-0.41 %	-15.38 %
Bivium	12.06 %	8.62 %	0.65 %	-16.60 %
Leading Edge	11.41 %	7.57 %	0.34 %	-17.08 %
Seizert	12.28 %	6.81 %	2.73 %	-19.18 %

**State of Michigan Retirement Systems
Performance By Trailing Four Quarters
Total Rates of Return**

<u>FUND</u>	<i>FOURTH</i> <i>QTR. 2010</i>	<i>FIRST</i> <i>QTR. 2011</i>	<i>SECOND</i> <i>QTR. 2011</i>	<i>THIRD</i> <i>QTR. 2011</i>
SAD Tactical Allocation	- %	- %	- %	-46.50 %
S&P 500 Index	10.82 %	5.96 %	0.20 %	-13.68 %
S&P Mid-Cap Index	13.67 %	9.57 %	-0.45 %	-19.28 %
International:				
International Equity	7.32 %	3.43 %	0.97 %	-18.45 %
Global Dividend Fund	6.75 %	5.86 %	1.73 %	-7.17 %
Wellington Intl	7.27 %	3.49 %	2.40 %	-19.50 %
SSGA Intl Alpha	8.23 %	5.18 %	1.20 %	-22.72 %
SSGA Intl Small Cap Alpha	11.42 %	4.84 %	2.85 %	-20.60 %
PIMCO Intl Stock Plus	- %	3.91 %	2.92 %	-21.71 %
Emerging Markets:				
Vanguard Emerging Markets	7.42 %	1.88 %	-0.93 %	-23.94 %
LA Capital Emerging Markets	9.14 %	2.52 %	0.29 %	-19.16 %
PIMCO EM Fund Index Plus	- %	3.69 %	0.17 %	-25.76 %
Alternative Investments				
Alternatives Equity	6.18 %	8.12 %	6.60 %	6.14 %
Alternatives Fixed Income	6.28 %	8.44 %	6.57 %	6.33 %
Alternatives Fixed Income	4.25 %	1.47 %	7.38 %	1.55 %
Real Estate				
Real Estate	4.28 %	4.18 %	3.83 %	3.62 %
Government Bonds				
Government Bonds	-0.74 %	0.35 %	2.61 %	2.81 %
Corporate Bonds				
Corporate Bonds	-1.80 %	0.82 %	2.51 %	2.57 %
Fixed Income Core:				
Dodge & Cox	0.18 %	1.14 %	2.01 %	0.94 %
Pyramis Global	-0.60 %	1.07 %	2.24 %	3.21 %
Metropolitan West	-0.22 %	1.31 %	1.91 %	2.11 %
Ambassador Capital	- %	- %	- %	4.33 %
Fixed Income Managers:				
Alliance Bernstein	-1.28 %	1.49 %	2.26 %	2.36 %
Prudential Investment	-1.15 %	1.00 %	2.43 %	2.54 %
CMBS Investment	17.08 %	14.51 %	-2.12 %	-10.59 %
Absolute Return:				
Absolute Return Strategies	2.47 %	2.74 %	0.13 %	-3.33 %
Commodity Investments	14.78 %	7.61 %	-5.40 %	-10.70 %
Opportunistic Investments:				
Opportunistic Investments	2.53 %	4.10 %	0.09 %	0.06 %
Special Situations Fund I	4.73 %	3.82 %	1.01 %	-7.09 %
Cash Equivalents	0.02 %	0.01 %	0.01 %	0.00 %
Short Term Fixed Income	0.09 %	0.09 %	0.08 %	0.05 %

MPSERS

Time-Weighted Rates of Return Periods Ending September 30, 2011

Assets % of Portfolio 09/30/11	Ten Years ¹		Seven Years ¹		Five Years ¹		Three Years ¹		One Year ¹		Current Quarter		
	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	
TOTAL PLAN	100.0	5.1	82	5.2	32	2.3	36	2.9	72	6.6	6	-6.2	22
Median - Greater than \$10 Billion ²		5.5		4.9		2.1		4.1		3.3		-8.1	
MPSERS Total Plan Policy		5.3		4.9		2.2		4.3		5.7		-7.4	
DOMESTIC EQUITIES	28.2	3.0	84	2.4	66	-1.0	56	1.3	63	-1.5	71	-15.5	51
Median ²		4.3		2.8		-0.9		1.6		0.1		-15.4	
S&P 1500 Index		3.3		2.6		-0.9		1.4		0.9		-14.6	
Stock-Active	17.0	2.8		2.2		-1.2		1.2		-2.3		-15.4	
S&P 500 Index/ S&P 1500 Blended Index ³		2.9		2.5		-0.9		1.4		0.9		-14.6	
Stock - Large Cap Active	13.2	2.6		1.9		-1.6		0.9		-2.0		-13.9	
S&P 500 Index		2.8		2.3		-1.2		1.2		1.1		-13.9	
Stock - Mid Cap Active	1.6					1.4		3.3		0.0		-19.3	
S&P 400 Mid Cap Index						2.2		4.1		-1.3		-19.9	
Stock - Small Cap Active	1.5	6.6		5.3		2.6		3.0		-4.5		-22.9	
S&P 600 Small Cap Index		7.4		4.0		0.3		0.8		0.2		-19.8	
Stock - Multicap Active	0.7							1.9		0.4		-17.0	
S&P 1500 Index								1.4		0.9		-14.6	
Tactical Allocation Fund	0.0											-46.5	
Stock-Passive US Equities	11.2	3.6		3.0		-0.5		2.0		1.5		-14.3	
S&P 900 Blend ⁴		3.3		2.6		-0.9		1.5		0.9		-14.4	
Passive S&P 500	10.1	3.1		2.5		-0.9		1.7		1.6		-13.7	
S&P 500 Index		2.8		2.3		-1.2		1.2		1.1		-13.9	
Passive S&P Mid-Cap	1.1	8.0		6.2		3.2		5.4		0.1		-19.3	
S&P 400 Mid Cap Index		7.5		5.5		2.2		4.1		-1.3		-19.9	
INTERNATIONAL EQUITIES	12.2	4.5	79	3.4	78	-3.4	73	0.8	48	-9.9	37	-19.6	40
Median ²		5.9		4.7		-1.8		0.4		-10.3		-19.8	
Passive International Equities	8.0	4.7		3.7		-2.9		2.1		-7.8		-17.9	
S&P Developed BMI-EPAC net 75/25 blend ⁷		4.5		3.4		-3.8		-0.7		-9.1		-18.4	
Active International Equities	2.1					-3.9		-1.6		-9.7		-21.3	
S&P Developed BMI Ex U.S. net						-2.4		0.3		-8.6		-19.3	
Emerging Markets Equities	2.1									-17.4		-24.1	
MSCI Emerging Markets Net										-16.2		-22.6	

MPSERS

Time-Weighted Rates of Return Periods Ending September 30, 2011

Assets % of Portfolio 09/30/11	Ten Years ¹		Seven Years ¹		Five Years ¹		Three Years ¹		One Year ¹		Current Quarter	
	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank
ALTERNATIVE INVESTMENTS	10.2	17	14.4	8	10.8	22	6.7	22	29.9	3	6.1	7
Median ²	6.3		10.9		7.8		4.3		16.2		0.8	
Alternative Blended Benchmark ⁵	8.8		9.3		7.3		13.3		33.2		0.9	
REAL ESTATE	5.0	50	3.9	37	-0.8	31	-9.2	52	16.9	38	3.6	21
Median ²	4.9		3.3		-2.4		-8.9		14.0		1.5	
NCREIF - Property Blended Index ⁶	6.7		6.2		2.1		-2.7		14.6		3.0	
NCREIF Open Fund Index Net	4.9		4.0		-0.9		-7.2		17.2		3.3	
BONDS	6.0	67	6.2	49	7.3	38	9.3	56	4.5	74	2.3	44
Median ²	6.3		6.1		7.0		9.8		5.9		1.7	
Barclays Govt/Credit	5.7		5.5		6.5		8.4		5.1		4.7	
Government	5.4		5.8		6.5		7.0		5.1		2.8	
Barclays Government	5.4		5.5		6.6		6.4		5.6		5.9	
Corporate	6.4		6.3		7.7		10.1		4.1		2.6	
Barclays Credit	6.3		5.7		6.7		11.7		4.6		3.0	
Fixed Income External	3.0		6.5		6.5		10.1		4.8		2.4	
Barclays Aggregate			6.5		6.5		8.0		5.3		3.8	
ABSOLUTE RETURN	2.9						-3.4		1.9		-3.3	
HFRI FOF Cons 1 mth lagged							-1.9		2.4		-2.9	
COMMODITY INVESTMENTS	0.7								4.4		-10.7	
DJ-UBS Commodity Index TR									0.0		-11.3	
REAL RETURN AND OPPORTUNISTIC	2.6								6.6		-0.9	
50% (CPI +500bp) + 50% (8% actuarial rate)									8.5		1.9	
CASH EQUIVALENTS	4.6		2.0		1.4		1.1		0.3		0.0	
1 Month T-Bill	1.8		2.0		1.5		0.1		0.1		0.0	

¹ Annualized Returns

² Comparison universe is the State Street Universe comprised of Public Funds greater than \$10 Billion on the total plan level and greater than \$1 Billion for asset classes.

³ Active Equity - Index is S&P 500 prior to March 2006, S&P 1500 current.

⁴ History prior to 5/1/07 is the S&P 1500

⁵ SP 500 + 300 BP through 12/31/06. Ending market value weighted blend of 10 yr yield + 300 BP and SP 500 + 300 12/31/06 to 9/30/09.

Ending market value weighted blend of 10 yr yield + 300 BP and SP 500 + 300 3 month lagged 9/30/09 to present.

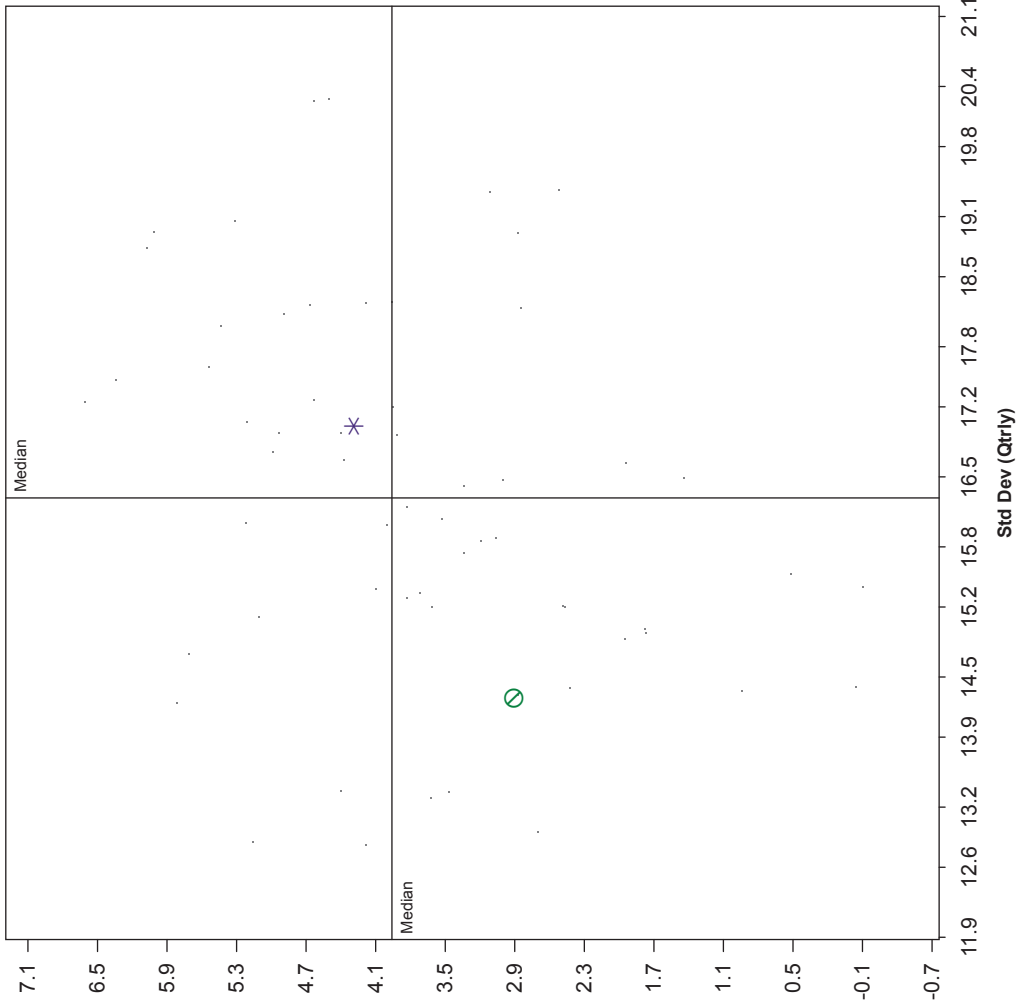
⁶ NCREIF - Property Blended Index is NPI minus 75 basis points prior to October 2005, NPI minus 130 basis points current.

⁷ International benchmark is S&P Developed BMI-EPAC 50/50 prior to 1/1/2010. S&P Developed BMI-EPAC 75 USD / 25 Local, 1/1/2010 to present.

Source: State Street Analytics; the NCREIF - NPI (Property Index) source is NCREIF; the S&P BMI-EPAC Index source is S&P.

MPERS TOTAL PLAN UNIVERSE REPORT

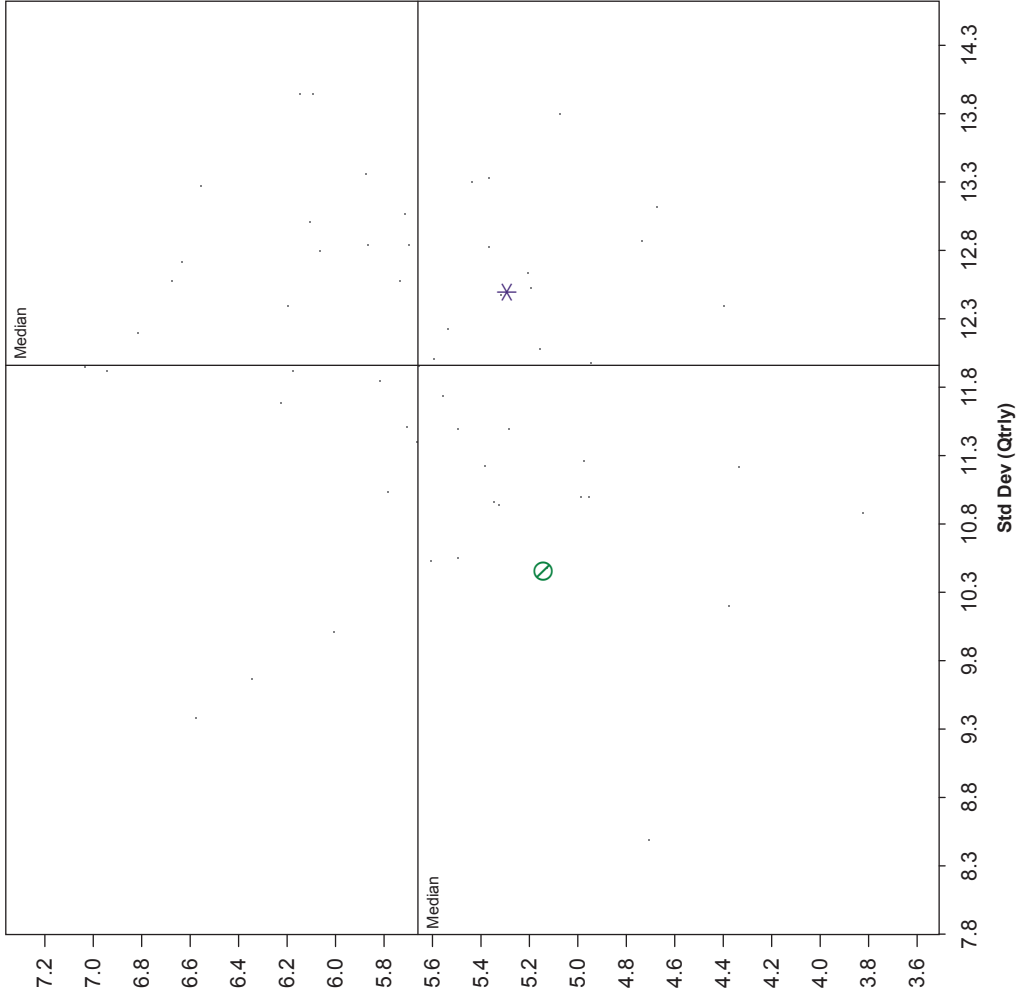
Public Funds (DB) > \$1 Billion (SSE) - Risk vs. Return 3 Years
 Period Ending September 30, 2011



NAME	Std Dev (Qtrly) 3 Yrs	ROR 3 Yrs
5th Percentile	12.94	6.35
25th Percentile	14.97	4.97
50th Percentile	16.29	3.96
75th Percentile	17.59	2.88
95th Percentile	19.35	0.74
No. of Obs	61	62
TOTAL PUBLIC SCHOOL	14.31	2.88
MPERS TOTAL PLAN POLICY	17.03	4.26

MPERSERS TOTAL PLAN UNIVERSE REPORT

Public Funds (DB) > \$1 Billion (SSE) - Risk vs. Return 10 Years
 Period Ending September 30, 2011



NAME	Std Dev (Qtrly) 10 Yrs	10 Yrs
5th Percentile	9.52	6.82
25th Percentile	10.99	6.11
50th Percentile	11.96	5.66
75th Percentile	12.79	5.21
95th Percentile	13.79	4.39
No. of Obs	57	61
TOTAL PUBLIC SCHOOL	10.47	5.13
MPERSERS TOTAL PLAN POLICY	12.51	5.28

MPSERS

Time-Weighted Rates of Return Public Plan Universe Comparison* Periods Ending September 30, 2011

	<u>Quarter</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
MPSERS	-6.15	6.63	2.88	2.29	5.13 %
Rank	7	5	75	37	80
bp Difference - Median	250	448	-108	75	-53
5th Percentile	-6.07	6.33	6.35	3.44	6.82 %
25th Percentile	-7.95	3.01	4.97	2.53	6.11 %
Median	-8.65	2.15	3.96	2.10	5.66 %
75th Percentile	-9.93	1.03	2.88	1.54	5.21 %
95th Percentile	-11.56	-0.17	0.74	0.15	4.39 %

Five-Year Smoothing

	<u>2002-2007</u>	<u>2003-2008</u>	<u>2004-2009</u>	<u>2005-2010</u>	<u>2006-2011</u>
MPSERS	14.03 %	8.06 %	4.21 %	3.46 %	2.29 %
Median	14.22 %	6.96 %	4.23 %	3.72 %	2.09 %

Return vs. Risk

	ANNUALIZED RETURNS		STD. DEVIATIONS	
	Value	Rank	Value	Rank
	<u>Five Years</u>		<u>Five Years</u>	
MPSERS	2.29 %	37	12.21 %	12
Median	2.1 %		13.93 %	
	<u>Ten Years</u>		<u>Ten Years</u>	
MPSERS	5.13 %	80	10.47 %	11
Median	5.66 %		11.96 %	

*State Street Public Funds Universe > \$1 Billion.

MPSERS
Cumulative and Consecutive
Total Fund Returns

Cumulative For Years Ending 9/30/2011

	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year
MPSERS	6.63	7.72	2.88	-1.13	2.29	3.98	5.20	6.09	7.03	5.13
Public Plan - Median (> \$1 billion)*	2.15	6.32	3.96	-1.08	2.10	3.42	4.87	5.84	7.16	5.66
Rank	5	16	75	52	37	19	29	34	57	80
bp Difference - Median	+448	+140	-108	-5	+19	+56	+33	+25	-13	-53

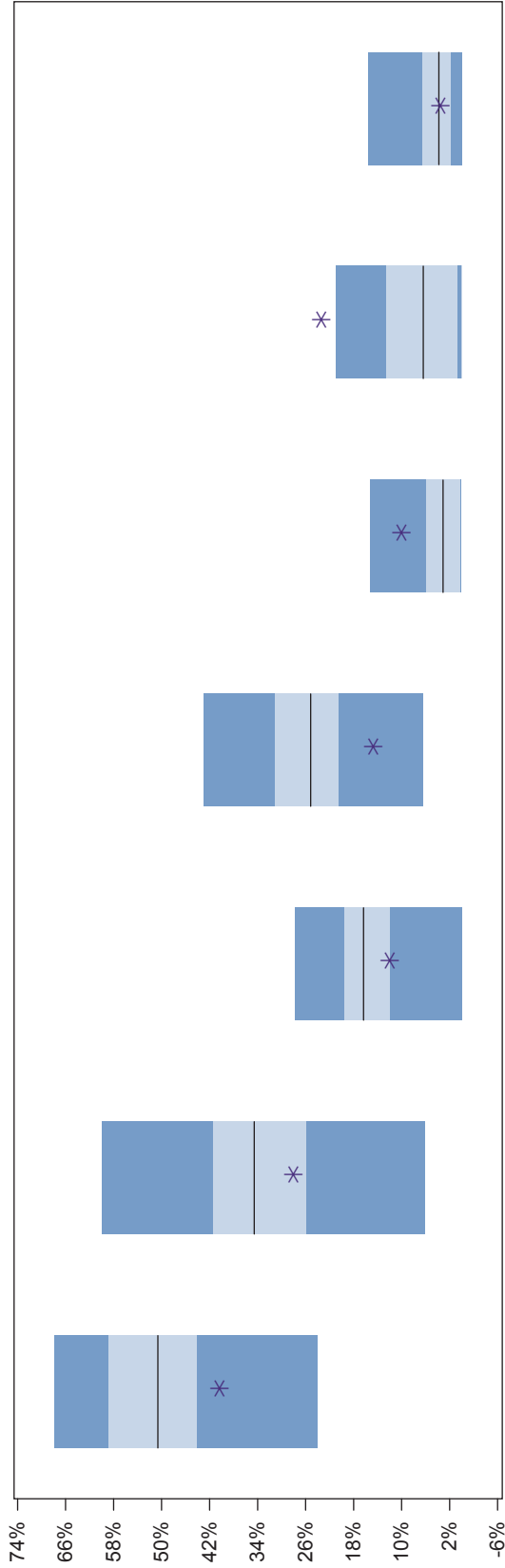
Consecutive For Years Ending

	9/11	9/10	9/09	9/08	9/07	9/06	9/05	9/04	9/03	9/02
MPSERS	6.63	8.82	-6.14	-12.25	17.21	12.83	12.82	12.55	14.81	-10.53
Public Plan - Median (> \$1 billion)*	2.15	10.55	0.25	-15.00	15.98	10.47	13.81	12.36	18.40	-7.59
Rank	5	87	92	11	31	7	83	43	93	100
bp Difference - Median	+448	-173	-639	+275	+123	+236	-99	+19	-359	-294

*State Street Public Funds Universe > \$1 Billion.

MPERS TOTAL PLAN UNIVERSE REPORT

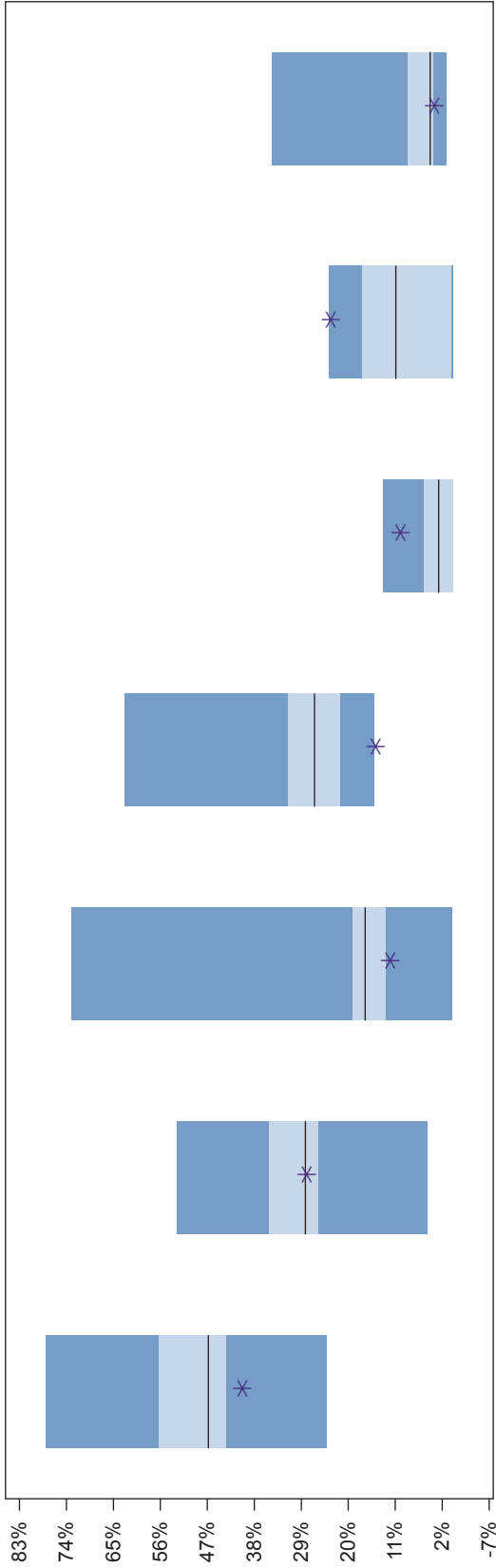
Public Funds (DB) > \$1 Billion (SSE) - Allocation
 Period Ending September 30, 2011



*1

MPERS TOTAL PLAN UNIVERSE REPORT

Public Funds (GT) > \$10 Billion (SSE) - Allocation
 Period Ending September 30, 2011



	Equities %	Equities Domestic %	Equities Foreign %	Fixed Income %	Real Estate %	Private Equity %	Cash Equiv %
5th Percentile	77.89	52.82	72.97	62.88	13.40	23.72	34.70
25th Percentile	56.30	35.19	19.12	31.72	5.59	17.49	8.68
50th Percentile	46.81	28.21	16.75	26.46	2.67	10.88	4.30
75th Percentile	43.30	25.71	12.71	21.51	0.00	0.29	3.73
95th Percentile	24.06	4.91	0.00	15.08	0.00	0.00	1.21
No. of Obs	18	18	18	18	18	18	18
*1 TOTAL PUBLIC SCHOOL	40.66	28.35	12.32	15.08	10.37	23.72	3.86
	80	49	85	95	12	5	69

*1

MSERS

Time-Weighted Rates of Return Public Plan Universe Comparison* Periods Ending September 30, 2011

	<u>Quarter</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
MSERS	-6.25	6.45	2.69	2.14	5.04 %
Rank	8	5	79	48	82
bp Difference - Median	240	430	-127	60	-62
5th Percentile	-6.07	6.33	6.35	3.44	6.82 %
25th Percentile	-7.95	3.01	4.97	2.53	6.11 %
Median	-8.65	2.15	3.96	2.10	5.66 %
75th Percentile	-9.93	1.03	2.88	1.54	5.21 %
95th Percentile	-11.56	-0.17	0.74	0.15	4.39 %

Five-Year Smoothing

	<u>2002-2007</u>	<u>2003-2008</u>	<u>2004-2009</u>	<u>2005-2010</u>	<u>2006-2011</u>
MSERS	13.96 %	7.98 %	4.14 %	3.33 %	2.14 %
Median	14.22 %	6.96 %	4.23 %	3.72 %	2.09 %

Return vs. Risk

	ANNUALIZED RETURNS		STD. DEVIATIONS	
	Value	Rank	Value	Rank
	<u>Five Years</u>		<u>Five Years</u>	
MSERS	2.14 %	48	12.26 %	13
Median	2.1 %		13.93 %	
	<u>Ten Years</u>		<u>Ten Years</u>	
MSERS	5.04 %	82	10.46 %	10
Median	5.66 %		11.96 %	

*State Street Public Funds Universe > \$1 Billion.

MSERS
Cumulative and Consecutive
Total Fund Returns

Cumulative For Years Ending 9/30/2011

	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year
MSERS	6.45	7.48	2.69	-1.31	2.14	3.84	5.08	5.96	6.90	5.04
Public Plan - Median (> \$1 billion)*	2.15	6.32	3.96	-1.08	2.10	3.42	4.87	5.84	7.16	5.66
Rank	5	22	79	58	48	26	36	38	59	82
bp Difference - Median	+430	+116	-127	-23	+4	+42	+21	+12	-26	-62

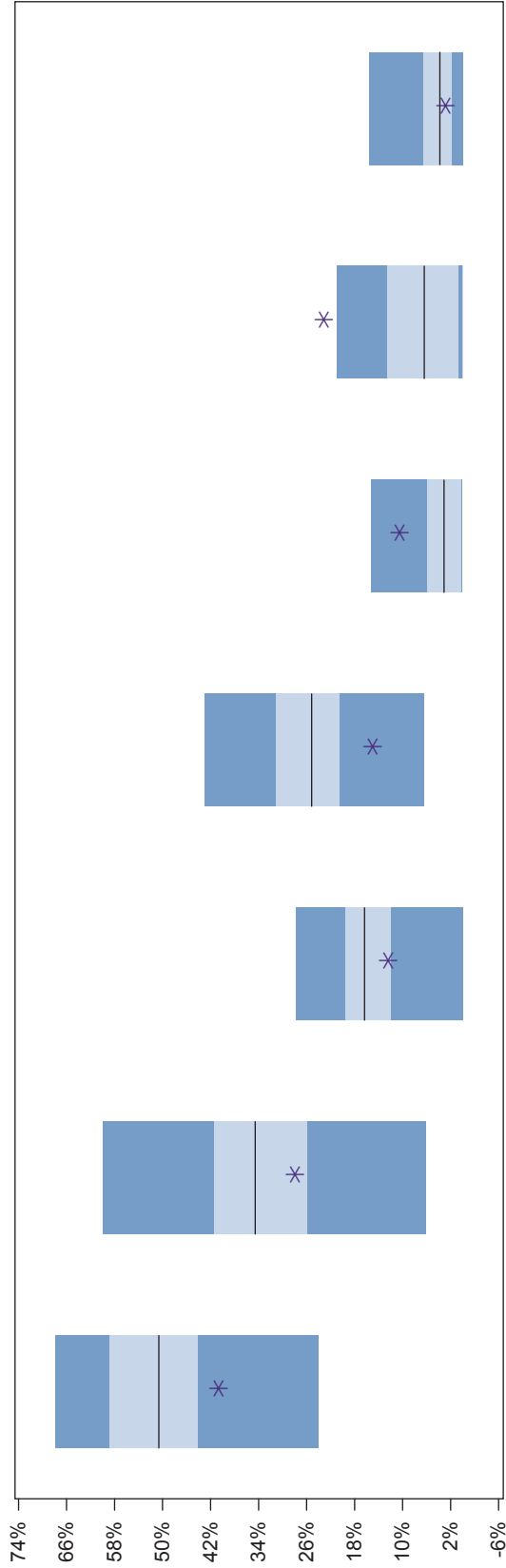
Consecutive Five Years Ending

	9/11	9/10	9/09	9/08	9/07	9/06	9/05	9/04	9/03	9/02
MSERS	6.45	8.53	-6.27	-12.41	17.19	12.81	12.83	12.35	14.70	-10.30
Public Plan - Median (> \$1 billion)*	2.15	10.55	0.25	-15.00	15.98	10.47	13.81	12.36	18.40	-7.59
Rank	5	92	92	19	32	8	82	51	94	98
bp Difference - Median	+430	-202	-652	+259	+121	+234	-98	-1	-370	-271

*State Street Public Funds Universe > \$1 Billion.

MSERS TOTAL PLAN UNIVERSE REPORT

Public Funds (DB) > \$1 Billion (SSE) - Allocation
 Period Ending September 30, 2011



*1 TOTAL EMPLOYEES

MSPRS

Time-Weighted Rates of Return Public Plan Universe Comparison* Periods Ending September 30, 2011

	<u>Quarter</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
MSPRS	-6.16	6.71	2.69	2.22	5.10 %
Rank	8	4	79	42	81
bp Difference - Median	249	456	-127	12	-56
5th Percentile	-6.07	6.33	6.35	3.44	6.82 %
25th Percentile	-7.95	3.01	4.97	2.53	6.11 %
Median	-8.65	2.15	3.96	2.10	5.66 %
75th Percentile	-9.93	1.03	2.88	1.54	5.21 %
95th Percentile	-11.56	-0.17	0.74	0.15	4.39 %

Five-Year Smoothing

	<u>2002-2007</u>	<u>2003-2008</u>	<u>2004-2009</u>	<u>2005-2010</u>	<u>2006-2011</u>
MSPRS	14.03 %	8.09 %	4.20 %	3.38 %	2.22 %
Median	14.22 %	6.96 %	4.23 %	3.72 %	2.09 %

Return vs. Risk

	ANNUALIZED RETURNS		STD. DEVIATIONS	
	Value	Rank	Value	Rank
	<u>Five Years</u>		<u>Five Years</u>	
MSPRS	2.22 %	42	12.17 %	12
Median	2.1 %		13.93 %	
	<u>Ten Years</u>		<u>Ten Years</u>	
MSPRS	5.10 %	81	10.42 %	10
Median	5.66 %		11.96 %	

*State Street Public Funds Universe > \$1 Billion.

MSPRS Cumulative and Consecutive Total Fund Returns

Cumulative For Years Ending 9/30/2011

	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year
MSPRS	6.71	7.61	2.69	-1.25	2.22	3.93	5.16	6.03	6.97	5.10
Public Plan - Median (> \$1 billion)*	2.15	6.32	3.96	-1.08	2.10	3.42	4.87	5.84	7.16	5.66
Rank	4	21	79	56	42	22	32	36	58	81
bp Difference - Median	+456	+129	-127	-17	+12	+51	+29	+19	-19	-56

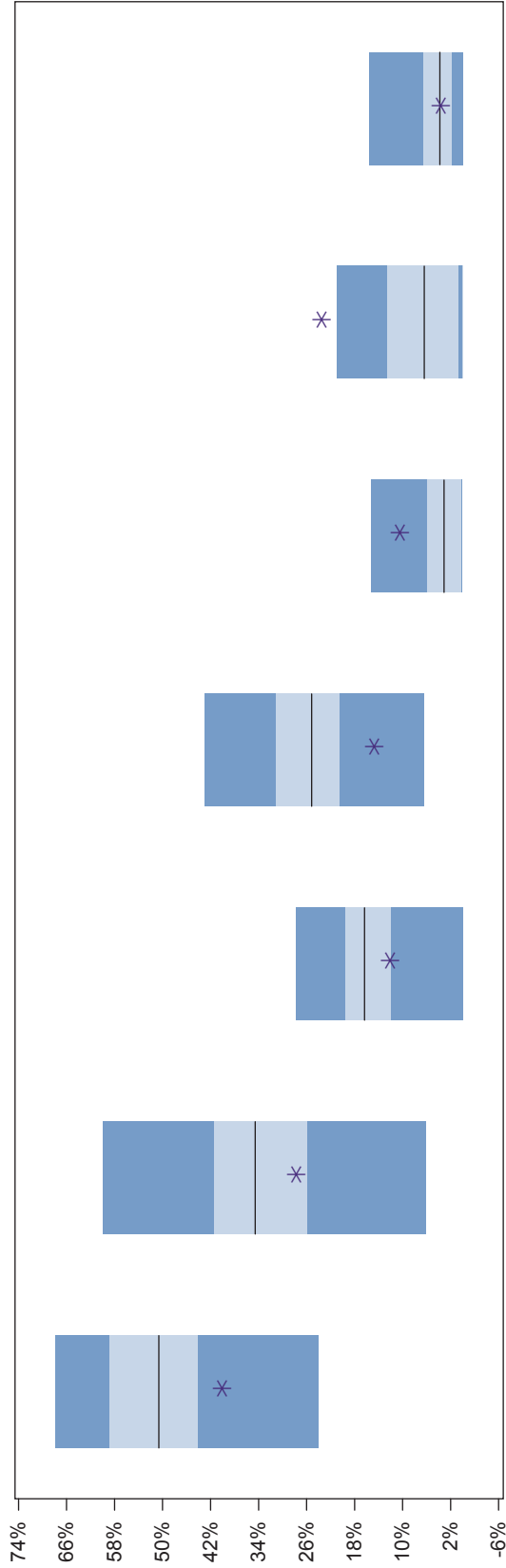
Consecutive Five Years Ending

	9/11	9/10	9/09	9/08	9/07	9/06	9/05	9/04	9/03	9/02
MSPRS	6.71	8.52	-6.49	-12.17	17.35	12.89	12.88	12.34	14.77	-10.35
Public Plan - Median (> \$1 billion)*	2.15	10.55	0.25	-15.00	15.98	10.47	13.81	12.36	18.40	-7.59
Rank	4	92	94	11	27	6	82	51	94	98
bp Difference - Median	+456	-203	-674	+283	+137	+242	-93	-2	-363	-276

*State Street Public Funds Universe > \$1 Billion.

MSPRS TOTAL PLAN UNIVERSE REPORT

Public Funds (DB) > \$1 Billion (SSE) - Allocation
 Period Ending September 30, 2011



	Equities %	Equities Domestic %	Equities Foreign %	Fixed Income %	Real Estate %	Private Equity %	Cash Equiv %
5th Percentile	67.81	59.91	27.84	43.00	15.21	20.84	15.61
25th Percentile	58.90	41.43	19.61	31.13	5.95	12.57	6.64
50th Percentile	50.62	34.56	16.34	25.16	3.08	6.38	3.78
75th Percentile	44.13	25.93	11.96	20.47	0.14	0.62	1.82
95th Percentile	24.06	6.15	0.00	6.41	0.00	0.00	0.02
No. of Obs	66	66	66	66	66	66	66
*1 TOTAL POLICE	40.44	28.04	12.41	15.03	10.77	23.83	3.97

MJRS

Time-Weighted Rates of Return Public Plan Universe Comparison* Periods Ending September 30, 2011

	<u>Quarter</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
MJRS	-6.55	6.06	2.07	1.90	4.81 %
Rank	10	8	86	61	89
bp Difference - Median	210	391	-189	-20	-85
5th Percentile	-6.07	6.33	6.35	3.44	6.82 %
25th Percentile	-7.95	3.01	4.97	2.53	6.11 %
Median	-8.65	2.15	3.96	2.10	5.66 %
75th Percentile	-9.93	1.03	2.88	1.54	5.21 %
95th Percentile	-11.56	-0.17	0.74	0.15	4.39 %

Five-Year Smoothing

	<u>2002-2007</u>	<u>2003-2008</u>	<u>2004-2009</u>	<u>2005-2010</u>	<u>2006-2011</u>
MJRS	13.57 %	7.77 %	4.09 %	3.11 %	1.90 %
Median	14.22 %	6.96 %	4.23 %	3.72 %	2.09 %

Return vs. Risk

	ANNUALIZED RETURNS		STD. DEVIATIONS	
	Value	Rank	Value	Rank
	<u>Five Years</u>		<u>Five Years</u>	
MJRS	1.9 %	61	12.02 %	11
Median	2.1 %		13.93 %	
	<u>Ten Years</u>		<u>Ten Years</u>	
MJRS	4.81 %	89	10.25 %	9
Median	5.66 %		11.96 %	

*State Street Public Funds Universe > \$1 Billion.

MJRS
Cumulative and Consecutive
Total Fund Returns

Cumulative For Years Ending 9/30/2011

	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year
MJRS	6.06	6.55	2.07	-1.56	1.90	3.60	4.79	5.60	6.58	4.81
Public Plan - Median (> \$1 billion)*	2.15	6.32	3.96	-1.08	2.10	3.42	4.87	5.84	7.16	5.66
Rank	8	40	86	61	61	36	56	64	77	89
bp Difference - Median	+391	+23	-189	-48	-20	+18	-8	-24	-58	-85

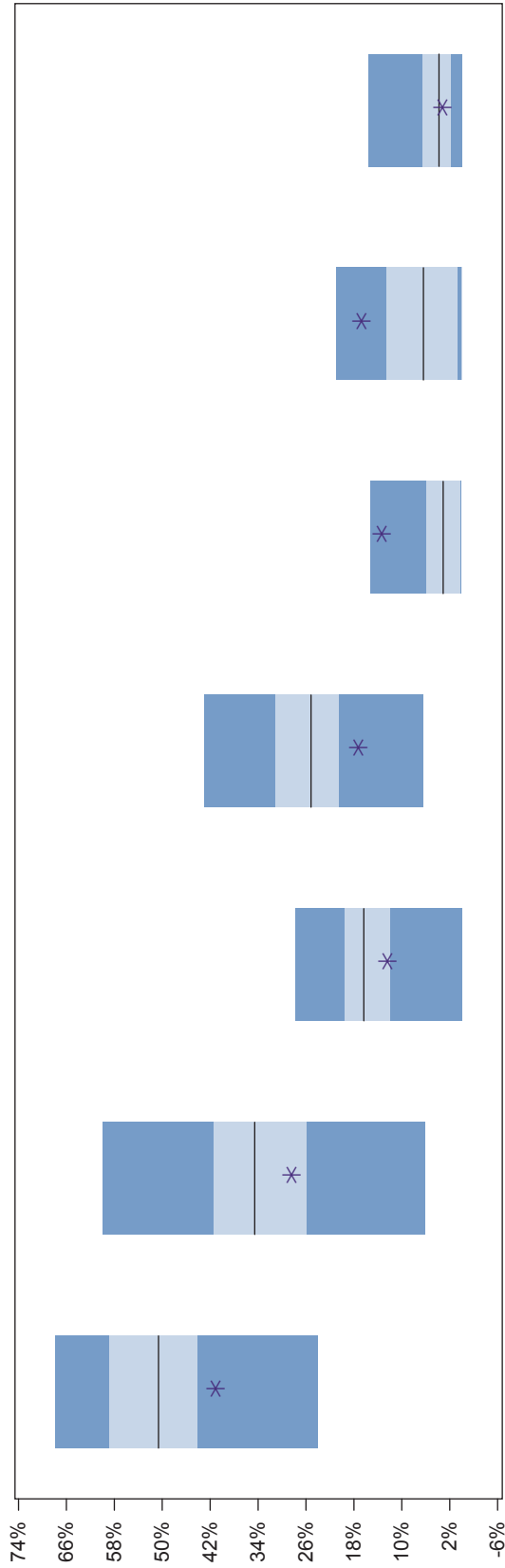
Consecutive Five Years Ending

	9/11	9/10	9/09	9/08	9/07	9/06	9/05	9/04	9/03	9/02
MJRS	6.06	7.04	-6.35	-11.67	16.96	12.54	12.25	11.42	14.77	-9.81
Public Plan - Median (> \$1 billion)*	2.15	10.55	0.25	-15.00	15.98	10.47	13.81	12.36	18.40	-7.59
Rank	8	100	93	7	34	9	91	77	94	89
bp Difference - Median	+391	-351	-660	+333	+98	+207	-156	-94	-363	-222

*State Street Public Funds Universe > \$1 Billion.

MJRS TOTAL PLAN UNIVERSE REPORT

Public Funds (DB) > \$1 Billion (SSE) - Allocation
 Period Ending September 30, 2011



	Equities %	Equities Domestic %	Equities Foreign %	Fixed Income %	Real Estate %	Private Equity %	Cash Equiv %
5th Percentile	67.81	59.91	27.84	43.00	15.21	20.84	15.61
25th Percentile	58.90	41.43	19.61	31.13	5.95	12.57	6.64
50th Percentile	50.62	34.56	16.34	25.16	3.08	6.38	3.78
75th Percentile	44.13	25.93	11.96	20.47	0.14	0.62	1.82
95th Percentile	24.06	6.15	0.00	6.41	0.00	0.00	0.02
No. of Obs	66	66	66	66	66	66	66
*1 TOTAL JUDGES	41.42	28.72	12.70	17.60	13.69	17.04	3.54

MPSEERS

Quarterly Comparisons*

Time-Weighted Rates of Return

Time Period	Rate	Rank	Median	bp Difference
2011 3 Qtr.	-6.15 %	7	-8.65 %	+250 bp
2 Qtr.	1.98 %	16	1.28 %	+70 bp
1 Qtr.	4.89 %	14	4.15 %	+74 bp
2010 Year	12.68 %	65	12.96 %	-28 bp
4 Qtr.	6.21 %	41	5.96 %	+25 bp
3 Qtr.	7.15 %	90	8.46 %	-131 bp
2 Qtr.	-4.32 %	42	-4.74 %	+42 bp
1 Qtr.	3.48 %	46	3.45 %	+3 bp
2009 Year	12.09 %	82	18.19 %	-610 bp
4 Qtr.	2.58 %	93	3.44 %	-86 bp
3 Qtr.	9.14 %	85	10.91 %	-177 bp
2 Qtr.	7.33 %	89	10.24 %	-291 bp
1 Qtr.	-6.72 %	61	-6.28 %	-44 bp
2008 Year	-24.27 %	27	-25.89 %	+162 bp
4 Qtr.	-14.12 %	58	-13.71 %	-41 bp
3 Qtr.	-6.16 %	4	-9.15 %	+299 bp
2 Qtr.	-0.93 %	79	-0.60 %	-33 bp
1 Qtr.	-5.16 %	47	-5.24 %	+8 bp
2007 Year	11.06 %	8	8.56 %	+250 bp
4 Qtr.	-0.53 %	42	-0.65 %	+12 bp
3 Qtr.	2.70 %	29	2.31 %	+39 bp
2 Qtr.	6.57 %	3	4.47 %	+210 bp
1 Qtr.	2.01 %	68	2.15 %	-14 bp
2006 Year	15.04 %	34	14.34 %	+70 bp
4 Qtr.	4.98 %	93	5.86 %	-88 bp
3 Qtr.	4.54 %	6	3.90 %	+64 bp
2 Qtr.	0.14 %	4	-0.60 %	+74 bp
1 Qtr.	4.67 %	53	4.74 %	-7 bp
2005 Year	9.92 %	19	7.74 %	+218 bp
4 Qtr.	2.96 %	18	2.56 %	+40 bp
3 Qtr.	4.25 %	36	4.15 %	+10 bp
2 Qtr.	2.33 %	39	2.29 %	+4 bp
1 Qtr.	0.07 %	8	-0.82 %	+89 bp
2004 Year	10.24 %	83	11.45 %	-121 bp
4 Qtr.	5.68 %	95	8.05 %	-237 bp
3 Qtr.	0.03 %	76	0.27 %	-24 bp
2 Qtr.	1.76 %	2	0.09 %	+167 bp
1 Qtr.	2.47 %	89	2.93 %	-46 bp
2003 Year	19.15 %	83	22.61 %	-346 bp
4 Qtr.	7.90 %	77	8.89 %	-99 bp
3 Qtr.	3.55 %	37	3.34 %	+21 bp
2 Qtr.	8.69 %	91	11.14 %	-245 bp
1 Qtr.	-1.89 %	50	-1.89 %	0 bp

*State Street Public Funds Universe > \$1 Billion.

MSERS

Quarterly Comparisons*

Time-Weighted Rates of Return

Time Period	Rate	Rank	Median	bp Difference
2011 3 Qtr.	-6.25 %	8	-8.65 %	+240 bp
2 Qtr.	1.95 %	17	1.28 %	+67 bp
1 Qtr.	4.86 %	14	4.15 %	+71 bp
2010 Year	12.55 %	74	12.96 %	-41 bp
4 Qtr.	6.21 %	40	5.96 %	+25 bp
3 Qtr.	9.09 %	86	10.91 %	-182 bp
2 Qtr.	-4.40 %	43	-4.74 %	+34 bp
1 Qtr.	3.40 %	54	3.45 %	-5 bp
2009 Year	11.88 %	83	18.19 %	-631 bp
4 Qtr.	2.42 %	96	3.44 %	-102 bp
3 Qtr.	9.09 %	86	10.91 %	-182 bp
2 Qtr.	7.38 %	89	10.24 %	-286 bp
1 Qtr.	-6.73 %	61	-6.28 %	-45 bp
2008 Year	-24.47 %	31	-25.89 %	+142 bp
4 Qtr.	-14.20 %	61	-13.71 %	-49 bp
3 Qtr.	-6.26 %	5	-9.15 %	+289 bp
2 Qtr.	-0.92 %	79	-0.60 %	-32 bp
1 Qtr.	-5.22 %	48	-5.24 %	+2 bp
2007 Year	11.01 %	9	8.56 %	+245 bp
4 Qtr.	-0.56 %	44	-0.65 %	+9 bp
3 Qtr.	2.66 %	31	2.31 %	+35 bp
2 Qtr.	6.55 %	5	4.47 %	+208 bp
1 Qtr.	2.05 %	62	2.15 %	-10 bp
2006 Year	15.02 %	34	14.34 %	+68 bp
4 Qtr.	4.98 %	92	5.86 %	-88 bp
3 Qtr.	4.49 %	8	3.90 %	+59 bp
2 Qtr.	0.15 %	4	-0.60 %	+75 bp
1 Qtr.	4.70 %	51	4.74 %	-4 bp
2005 Year	9.91 %	20	7.74 %	+217 bp
4 Qtr.	2.96 %	18	2.56 %	+40 bp
3 Qtr.	4.21 %	39	4.15 %	+6 bp
2 Qtr.	2.35 %	39	2.29 %	+6 bp
1 Qtr.	0.09 %	8	-0.82 %	+91 bp
2004 Year	10.17 %	84	11.45 %	-128 bp
4 Qtr.	5.69 %	95	8.05 %	-236 bp
3 Qtr.	0.03 %	77	0.27 %	-24 bp
2 Qtr.	1.72 %	3	0.09 %	+163 bp
1 Qtr.	2.45 %	92	2.93 %	-48 bp
2003 Year	19.04 %	84	22.61 %	-357 bp
4 Qtr.	7.79 %	79	8.89 %	-110 bp
3 Qtr.	3.49 %	39	3.34 %	+15 bp
2 Qtr.	8.70 %	91	11.14 %	-244 bp
1 Qtr.	-1.83 %	47	-1.89 %	+6 bp

*State Street Public Funds Universe > \$1 Billion.

MSPRS

Quarterly Comparisons*

Time-Weighted Rates of Return

<u>Time Period</u>	<u>Rate</u>	<u>Rank</u>	<u>Median</u>	<u>bp Difference</u>
2011 3 Qtr.	-6.16 %	8	-8.65 %	+249 bp
2 Qtr.	2.00 %	15	1.28 %	+72 bp
1 Qtr.	4.92 %	10	4.15 %	+77 bp
2010 Year	12.61 %	70	12.96 %	-35 bp
4 Qtr.	6.26 %	40	5.96 %	+30 bp
3 Qtr.	8.98 %	87	10.91 %	-193 bp
2 Qtr.	-4.30 %	40	-4.74 %	+44 bp
1 Qtr.	3.40 %	54	3.45 %	-5 bp
2009 Year	11.50 %	85	18.19 %	-669 bp
4 Qtr.	2.40 %	96	3.44 %	-104 bp
3 Qtr.	8.98 %	87	10.91 %	-193 bp
2 Qtr.	7.15 %	91	10.24 %	-309 bp
1 Qtr.	-6.75 %	62	-6.28 %	-47 bp
2008 Year	-24.24 %	27	-25.89 %	+165 bp
4 Qtr.	-14.14 %	59	-13.71 %	-43 bp
3 Qtr.	-6.14 %	4	-9.15 %	+301 bp
2 Qtr.	-0.91 %	78	-0.60 %	-31 bp
1 Qtr.	-5.13 %	44	-5.24 %	+11 bp
2007 Year	11.22 %	6	8.56 %	+266 bp
4 Qtr.	-0.49 %	38	-0.65 %	+16 bp
3 Qtr.	2.70 %	30	2.31 %	+39 bp
2 Qtr.	6.65 %	2	4.47 %	+218 bp
1 Qtr.	2.05 %	62	2.15 %	-10 bp
2006 Year	15.1 %	25	14.34 %	+76 bp
4 Qtr.	4.99 %	92	5.86 %	-87 bp
3 Qtr.	4.53 %	7	3.90 %	+63 bp
2 Qtr.	0.17 %	4	-0.60 %	+77 bp
1 Qtr.	4.70 %	51	4.74 %	-4 bp
2005 Year	9.98 %	17	7.74 %	+224 bp
4 Qtr.	2.97 %	18	2.56 %	+41 bp
3 Qtr.	4.26 %	36	4.15 %	+11 bp
2 Qtr.	2.34 %	39	2.29 %	+5 bp
1 Qtr.	0.10 %	8	-0.82 %	+92 bp
2004 Year	10.18 %	84	11.45 %	-127 bp
4 Qtr.	5.69 %	95	8.05 %	-236 bp
3 Qtr.	0.05 %	75	0.27 %	-22 bp
2 Qtr.	1.70 %	3	0.09 %	+161 bp
1 Qtr.	2.45 %	92	2.93 %	-48 bp
2003 Year	18.97 %	85	22.61 %	-364 bp
4 Qtr.	7.76 %	79	8.89 %	-113 bp
3 Qtr.	3.48 %	39	3.34 %	+14 bp
2 Qtr.	8.73 %	91	11.14 %	-241 bp
1 Qtr.	-1.88 %	50	-1.89 %	+1 bp

*State Street Public Funds Universe > \$1 Billion.

MJRS
Quarterly Comparisons*
Time-Weighted Rates of Return

<u>Time Period</u>	<u>Rate</u>	<u>Rank</u>	<u>Median</u>	<u>bp Difference</u>
2011 3 Qtr.	-6.55 %	10	-8.65 %	+210 bp
2 Qtr.	1.75 %	27	1.28 %	+47 bp
1 Qtr.	4.81 %	16	4.15 %	+66 bp
2010 Year	12.24 %	82	12.96 %	-72 bp
4 Qtr.	6.43 %	36	5.96 %	+47 bp
3 Qtr.	8.58 %	90	10.91 %	-233 bp
2 Qtr.	-4.86 %	59	-4.74 %	-12 bp
1 Qtr.	3.00 %	72	3.45 %	-45 bp
2009 Year	9.89 %	89	18.19 %	-830 bp
4 Qtr.	1.51 %	97	3.44 %	-193 bp
3 Qtr.	8.58 %	90	10.91 %	-233 bp
2 Qtr.	7.17 %	91	10.24 %	-307 bp
1 Qtr.	-6.94 %	64	-6.28 %	-66 bp
2008 Year	-23.28 %	18	-25.89 %	+261 bp
4 Qtr.	-13.51 %	46	-13.71 %	+20 bp
3 Qtr.	-5.96 %	2	-9.15 %	+319 bp
2 Qtr.	-0.85 %	71	-0.60 %	-25 bp
1 Qtr.	-4.86 %	36	-5.24 %	+38 bp
2007 Year	11.02 %	9	8.56 %	+246 bp
4 Qtr.	-0.44 %	37	-0.65 %	+21 bp
3 Qtr.	2.62 %	34	2.31 %	+31 bp
2 Qtr.	6.36 %	5	4.47 %	+189 bp
1 Qtr.	2.17 %	49	2.15 %	+2 bp
2006 Year	14.8 %	38	14.34 %	+46 bp
4 Qtr.	4.89 %	94	5.86 %	-97 bp
3 Qtr.	4.37 %	13	3.90 %	+47 bp
2 Qtr.	0.16 %	4	-0.60 %	+76 bp
1 Qtr.	4.71 %	51	4.74 %	-3 bp
2005 Year	9.31 %	21	7.74 %	+157 bp
4 Qtr.	2.82 %	22	2.56 %	+26 bp
3 Qtr.	3.89 %	66	4.15 %	-26 bp
2 Qtr.	2.31 %	45	2.29 %	+2 bp
1 Qtr.	0.01 %	10	-0.82 %	+83 bp
2004 Year	9.57 %	88	11.45 %	-188 bp
4 Qtr.	5.58 %	96	8.05 %	-247 bp
3 Qtr.	0.03 %	77	0.27 %	-24 bp
2 Qtr.	1.46 %	4	0.09 %	+137 bp
1 Qtr.	2.25 %	93	2.93 %	-68 bp
2003 Year	18.39 %	90	22.61 %	-422 bp
4 Qtr.	7.37 %	85	8.89 %	-152 bp
3 Qtr.	3.21 %	54	3.34 %	-13 bp
2 Qtr.	8.62 %	94	11.14 %	-252 bp
1 Qtr.	-1.64 %	43	-1.89 %	+25 bp

*State Street Public Funds Universe > \$1 Billion.

Annual Total Returns of Key Asset Classes 1992 - 2010

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Small Value Stocks	29.15%	32.57%	7.78%	38.13%	23.97%	36.52%	42.16%	43.09%	22.83%	14.02%	10.26%	48.54%	22.25%	13.54%	26.34%	11.17%	5.24%	34.47%	29.09%
Small Growth Stocks	18.42%	23.86%	3.90%	37.58%	22.96%	33.36%	28.58%	28.25%	11.63%	8.44%	1.65%	47.25%	20.25%	6.33%	23.48%	9.13%	2.11%	31.78%	26.05%
Large Value Stocks	10.52%	18.89%	3.14%	36.99%	22.00%	31.78%	20.00%	26.96%	6.08%	3.83%	-11.42%	46.03%	18.33%	4.91%	20.80%	7.05%	-28.92%	31.57%	24.50%
Small Value Stocks	7.77%	18.61%	1.32%	31.04%	21.37%	29.98%	14.69%	21.26%	5.89%	2.49%	-15.66%	38.59%	15.71%	4.71%	18.37%	6.97%	-33.79%	27.17%	15.10%
Large Value Stocks	7.62%	13.37%	-0.64%	28.44%	16.53%	22.36%	8.70%	21.04%	-3.02%	-9.23%	-19.99%	31.78%	14.31%	4.55%	15.80%	5.49%	-34.92%	26.47%	15.06%
U.S. Bonds	7.40%	10.08%	-1.55%	25.75%	11.32%	12.93%	4.86%	12.72%	-9.11%	-11.69%	-20.48%	28.68%	10.88%	4.15%	13.35%	4.74%	-37.00%	21.17%	15.05%
Large Growth Stocks	5.06%	9.75%	-1.81%	18.46%	6.05%	9.64%	1.23%	4.68%	Foreign Stocks	Foreign Stocks	Large Stocks	Large Stocks	Large Stocks	Large Stocks	Large Stocks	Large Stocks	Small Stocks	Small Stocks	Small Stocks
Cash	3.51%	2.90%	-2.44%	11.21%	5.21%	5.26%	-2.55%	-0.82%	-22.08%	-12.75%	-22.77%	4.10%	4.34%	2.98%	4.75%	-1.57%	-39.22%	5.93%	6.54%
Foreign Stocks	-12.18%	1.68%	-2.92%	5.60%	3.64%	1.78%	-6.46%	-1.48%	-22.43%	-21.45%	-30.26%	1.02%	1.20%	2.43%	4.33%	-9.78%	-43.42%	0.09%	0.02%

- Large Stocks are represented by the S&P 500
- Large Growth Stocks are represented by S&P 500 Growth Index
- Large Value Stocks are represented by the S&P 500 Value Index
- Foreign Stocks are represented by the MSCI EAFE Index
- Cash is represented by 30-day T-Bills

- Small Stocks are represented by the Russell 2000 Index
- Small Growth Stocks are represented by the Russell 2000 Growth Index
- Small Value Stocks are represented by the Russell 2000 Value Index
- U.S. Bonds are represented by the Barclays Capital Aggregate Bond Index

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

ASSET ALLOCATION REVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011

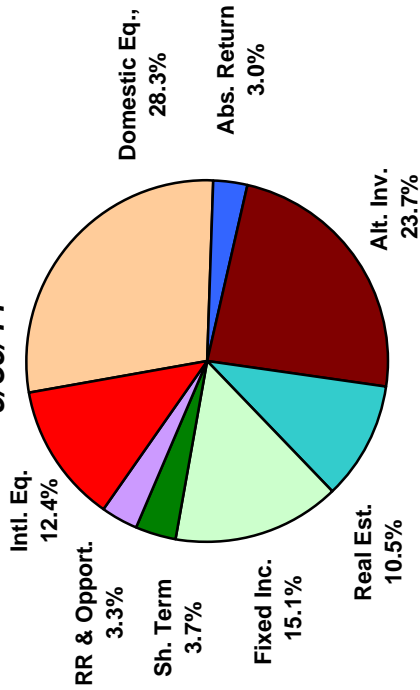


**Jon M. Braeutigam
Chief Investment Officer
Bureau of Investments**

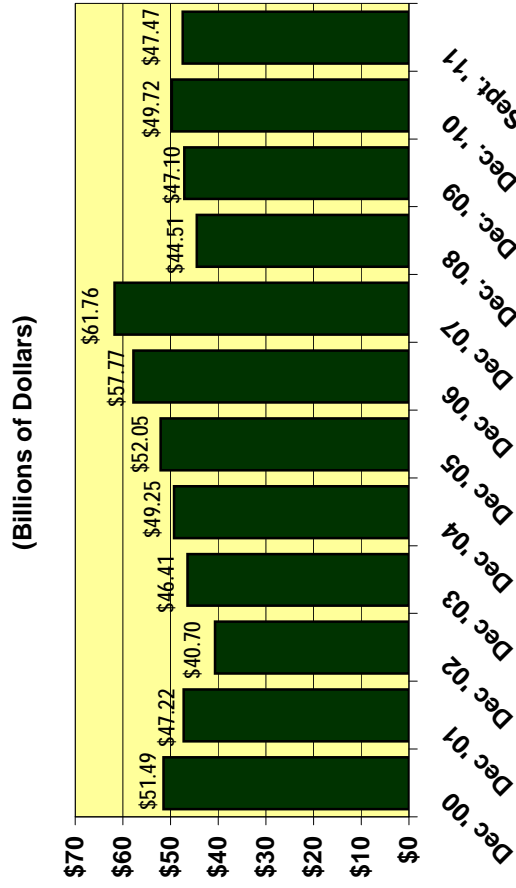


STATE OF MICHIGAN RETIREMENT SYSTEMS PROFILE - SEPTEMBER 2011

Asset Allocation 9/30/11



Market Value* 12/00 - 9/11 (Billions of Dollars)



Asset Allocation By Market Value (In Millions)

Investment Strategies	9/30/2011	6/30/2011
Domestic Equity	\$13,446	\$17,971
Alternative Investments	11,223	10,735
Fixed Income	7,182	7,123
International Equity	5,885	7,326
Real Estate	4,977	4,765
Short Term**	1,771	1,031
Real Return & Opport.	1,585	1,402
Absolute Return	1,396	1,268
TOTAL	\$47,465	\$51,621

Short Term Equivalents

Short Term Strategy**	\$1.8
Short Term in Other Inv. Strategies	0.8
TOTAL SHORT TERM	\$2.6

5.5% of Total Funds

Market Value By Plan 9/30/2011

	Market Value (In Millions)	%
Public School Employees	\$37,298	78.6%
State Employees	8,924	18.8%
State Police	1,010	2.1%
Judges	233	0.5%
TOTAL	\$47,465	100.0%



18th Largest DB Public Pension Fund in the U.S.
21st Largest DB Pension Fund in the U.S.



Pensions & Investments Survey - February 7, 2011

*The retirement systems annually pay out approximately \$2.6 billion to beneficiaries in excess of contributions (FY2010).

Asset Deployment

July – August – September ~ 2011

*Beginning Cash:
\$1.89 Billion*

Active Equity
+\$1,805 mil

Net sales of \$1.645 billion in large-cap growth, value, growth dividend and core. Net withdrawals of \$160 million from external managers.

Passive Equity
-\$114 mil

Net cash outflows of \$145 million in S&P 500 and \$31 million in inflows from the mid-cap indices.

International
+\$11 mil

Net sales of \$102 million in international equity swaps and net outflow of \$94 million to external managers.

Alternative Invest.
+\$110 mil

Distributions exceeded draw-downs by \$110 million.

Real Estate
-\$104 mil

Draw-downs exceeded the distributions by \$104 million.

Fixed Income
+\$100 mil

Sales, calls and maturities exceeded purchases by \$100 million.

STARR
-\$381 mil

Net purchases of \$381 million in absolute return strategies and short-term fixed income.

Invest. Income
+\$186 mil
Net Benefit
Payments
-\$881 mil
-\$695 mil

*Ending Cash:
\$2.62 Billion*

Asset Allocation Targets

Asset Class	MPERS			MSERS			MSPRS			MJRS		
	Actual 9/30/11	Target 9/30/12	Target* 9/30/13	Actual 9/30/11	Target 9/30/12	Target* 9/30/13	Actual 9/30/11	Target 9/30/12	Target* 9/30/13	Actual 9/30/11	Target 9/30/12	Target* 9/30/13
Broad US Equity	28.3%	33.0%	33.0%	28.2%	33.0%	33.0%	28.0%	33.0%	33.0%	28.8%	31.0%	31.0%
Broad Int'l Equity	12.3%	16.0%	16.0%	12.7%	16.0%	16.0%	12.4%	16.0%	16.0%	12.7%	15.0%	15.0%
US Fixed Income Core	15.1%	16.0%	16.0%	15.3%	16.0%	16.0%	15.0%	16.0%	16.0%	17.6%	20.0%	20.0%
Real Estate Core	10.4%	9.0%	9.0%	10.9%	9.0%	9.0%	10.8%	9.0%	9.0%	13.7%	10.0%	10.0%
Alternative Invest.	23.7%	14.0%	14.0%	23.5%	14.0%	14.0%	23.9%	14.0%	14.0%	17.0%	12.0%	12.0%
Absolute Return	2.9%	6.0%	6.0%	3.0%	6.0%	6.0%	3.0%	6.0%	6.0%	3.0%	6.0%	6.0%
Real Return / Opportunistic	3.4%	4.0%	4.0%	3.2%	4.0%	4.0%	2.9%	4.0%	4.0%	3.7%	4.0%	4.0%
Cash	3.9%	2.0%	2.0%	3.2%	2.0%	2.0%	4.0%	2.0%	2.0%	3.5%	2.0%	2.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expected Return			8.1%			8.1%			8.1%			7.9%
Expected Risk (1 yr.)			12.7%			12.7%			12.7%			11.8%
*Complies with basket clause and international restrictions.												

Asset Allocation Targets and Ranges

Asset Class	MPSERS		MSERS		MSPRS		MJRS	
	Targets	Ranges*	Targets	Ranges*	Targets	Ranges*	Targets	Ranges*
Broad US Equity	33%	20% - 50%	33%	20% - 50%	33%	20% - 50%	31%	20% - 50%
Broad Int'l Equity	16%	10% - 20%	16%	10% - 20%	16%	10% - 20%	15%	10% - 20%
US Fixed Income Core	16%	10% - 25%	16%	10% - 25%	16%	10% - 25%	20%	10% - 30%
Real Estate Core	9%	5% - 15%	9%	5% - 15%	9%	5% - 15%	10%	5% - 15%
Alternative Invest.	14%	10% - 20%	14%	10% - 20%	14%	10% - 20%	12%	8% - 18%
Absolute Return	6%	0% - 12%	6%	0% - 12%	6%	0% - 12%	6%	0% - 12%
Real Return	4%	0% - 8%	4%	0% - 8%	4%	0% - 8%	4%	0% - 8%
Cash	2%	1% - 7%	2%	1% - 7%	2%	1% - 7%	2%	1% - 7%
TOTAL	100.0%		100.0%		100.0%		100.0%	
*Complies with basket clause and international restrictions.								

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

CAPITAL MARKETS OVERVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011

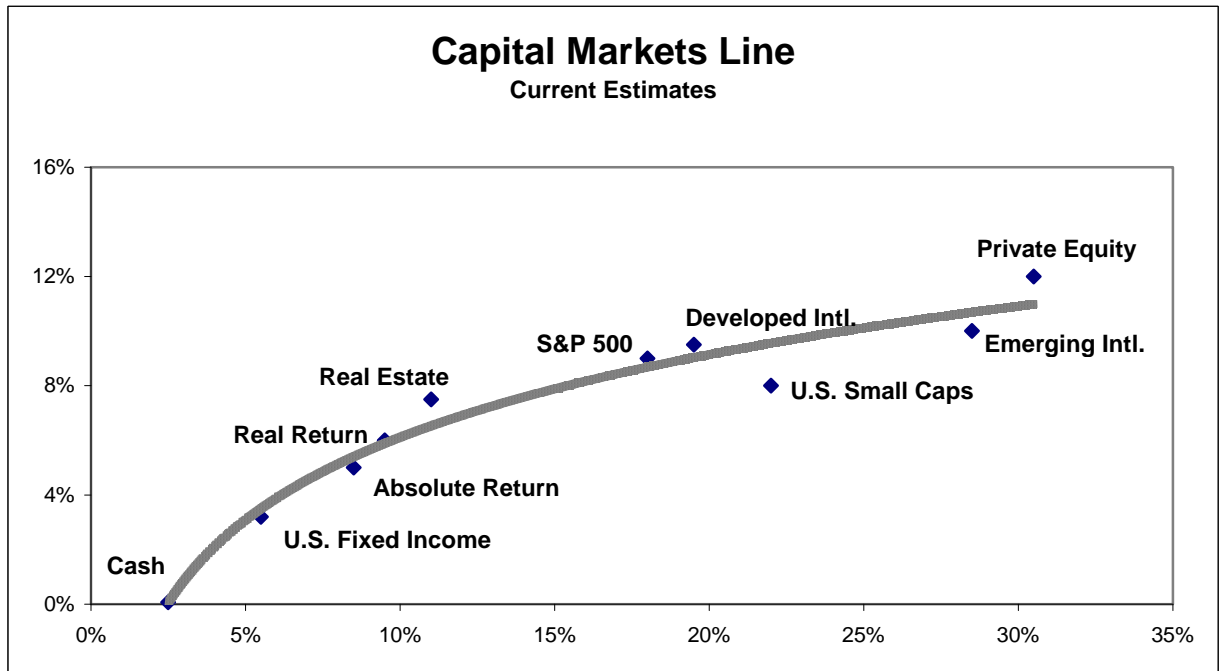
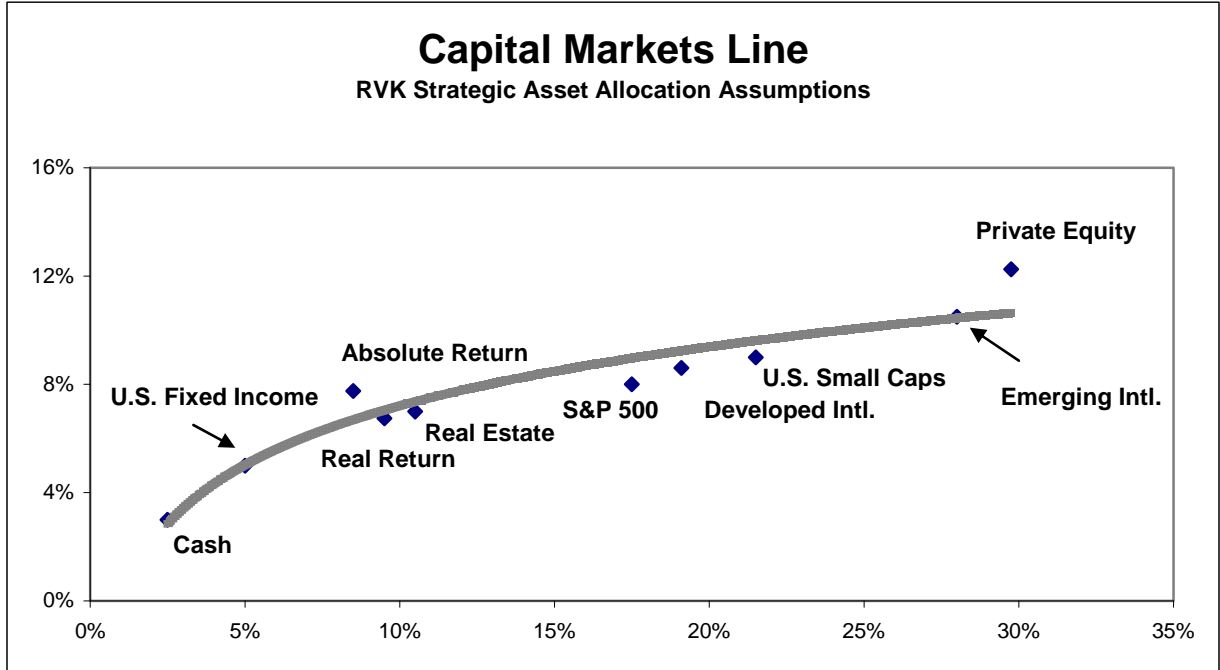


**Gregory J. Parker, CFA
Director of Investments – Public Markets
Director of Asset Allocation
Bureau of Investments**

CAPITAL MARKETS OVERVIEW

- Most asset classes are priced to return “Normal” long-term rates of returns
- Unemployment remains stubbornly high at 9.0%
- The effects of global stimulus are wearing off
 - Transition to a self-sustaining recovery
 - QE2 ended in June
- World events
 - Japan earthquake
 - Middle East unrest
 - U.S. flooding
 - European credit crisis
 - U.S. debt ceiling debates
 - S&P down grades U.S. debt
- GDP growth stabilizing?
 - September quarter measured 2.5% annualized
 - June quarter measured 1.3% annualized
 - March quarter reduced down from 1.9% to 0.4% annualized
 - Will consumers continue to spend?

Capital Markets Line



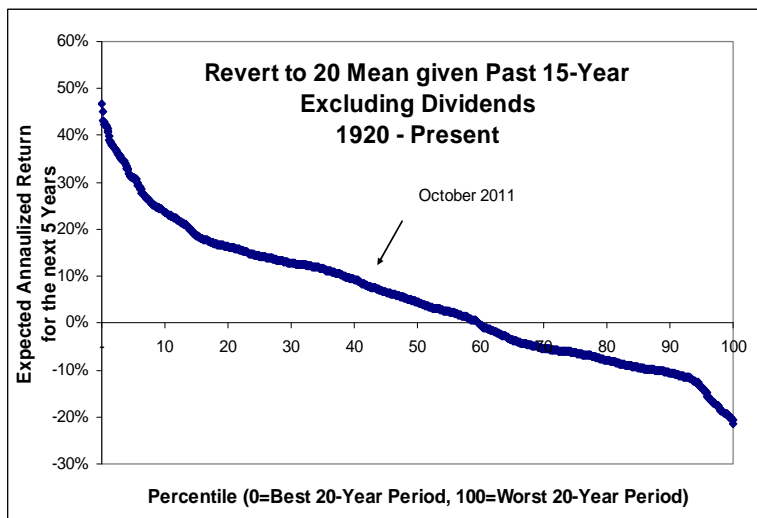
Domestic Equities

S&P 500 – 12/31/08 – 10/31/11



- We stated in June, the technical backdrop is notably weaker indicating the potential for weaker returns.
- At the end of July, the S&P 500 was priced near the 200-day moving average.
- The S&P 500 lost more than 12% of its value in August and September.
- At the end of October, the S&P 500 was priced near the 200-day moving average against a notable/weaker technical back crop again.
- Since 1920, the median 20-year price return for the S&P 500 is 174.1% or 5.2% annualized.
- The S&P 500 has increased by 72.1% over the past 15 years.
- Using the 20-year median price return as a projection, there is a 50% chance that the annualized price return for the S&P 500 will be 9.76% over the next 5 years.

Returns Based Outlook



Earnings Based Outlook

<u>Scenerio</u>	<u>Price Return Estimate</u>	<u>Total Return Estimate</u>
Super Bull	23.9%	27.6%
Bull	12.6%	17.1%
Base	5.1%	9.0%
Bear	-5.6%	-2.7%
Super Bear	-13.6%	-12.7%

Assumptions

	<u>2016 Earnings</u>	<u>2016 P/E Ratio</u>	<u>Dividend Payout</u>
High	\$141.22	25.0	62%
Mid	\$99.73	15.5	54%
Low	\$58.25	10.0	42%

Based on Robert Shiller data

International Equities

Developed Markets

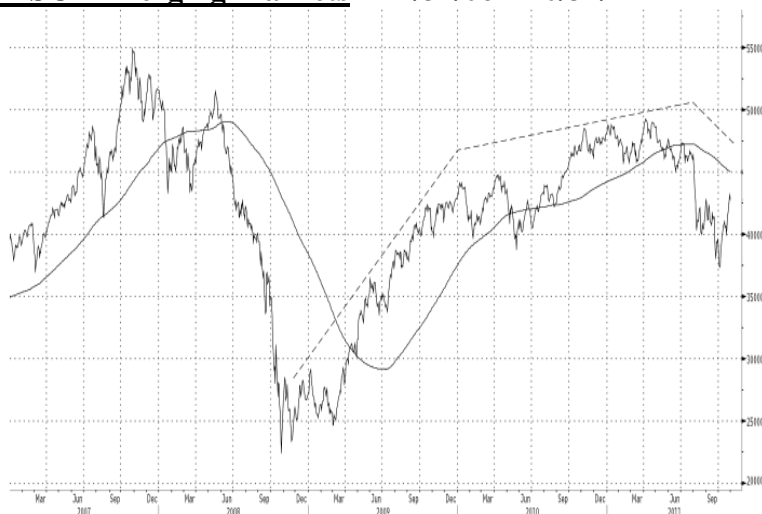
MSCI EAFE – 12/31/08 – 10/31/11



- The developed international equity markets represented by the MSCI EAFE Index are above their 2009 lows.
- MSCI EAFE is now below its 200-day moving average, with still no real trend in place.
- In August, the index broke through to the downside of the established trading range.
- At the end of October, the index was priced very near the lower band of the trading range.

Emerging Markets

MSCI Emerging Markets – 12/31/06 – 10/31/11



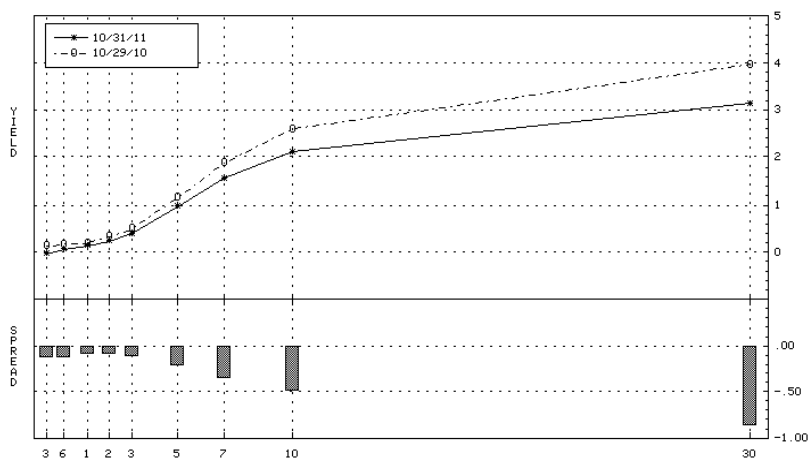
- The “V-shaped” recovery in emerging markets began in 2008. However, the rate of appreciation has slowed since late 2009.
- The price broke through recent support levels and it is now below the 200-day moving average.
- In June, we said that the emerging markets are vulnerable to further weakness.
- At the end of October, it appears further weakness is likely in the near term until a new trend can be established.

Count of Markets Priced Below a 200-Day Moving Average

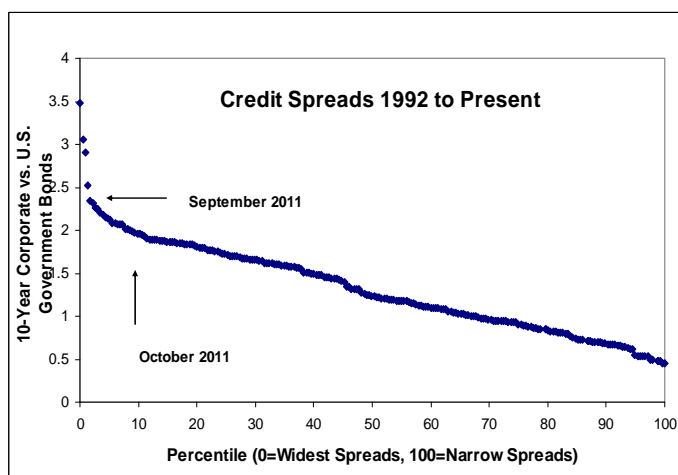
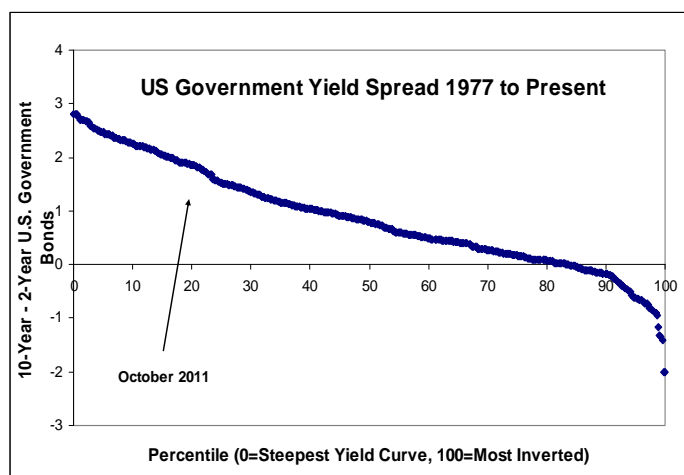
	<u>Developed</u>	<u>Emerging</u>
October 31, 2011	25	16
December 31, 2010	5	2
December 31, 2009	1	1

Prices above/below a 200-day moving average is a proxy for the near term direction of the stock market.

U.S. Cash and Fixed Income

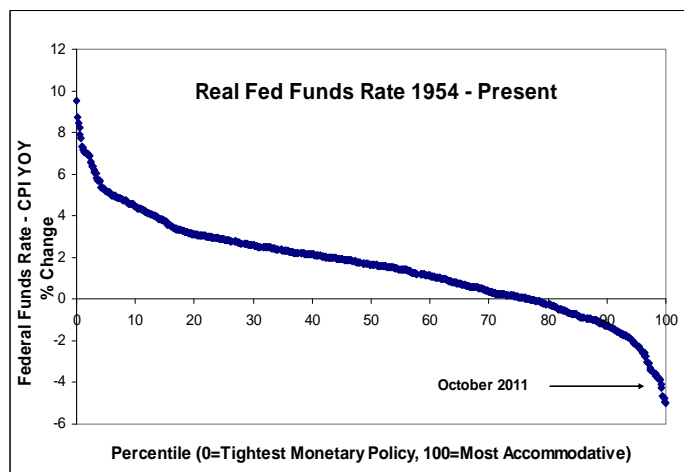


- Over the past year, rates have slightly decreased across the curve.
- Rates at the short end are still very low.
- Rates at the long end have decreased the most.



- The yield curve is steep, but flattening.
- Some flattening as equities sell off.

- Credit spreads are near record wide.
- Credit spreads must come in ~ 0.72% to get to median levels.



- The Fed has adopted an extremely accommodative stance.

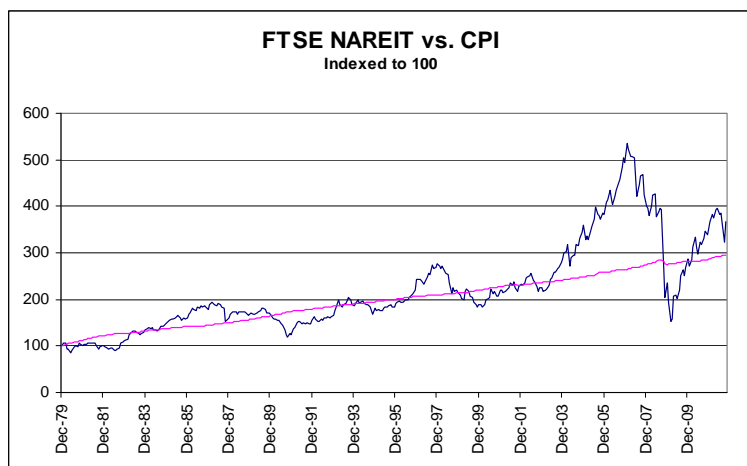
U. S. Real Estate

FTSE NAREIT Index – 1/31/06 – 10/31/11

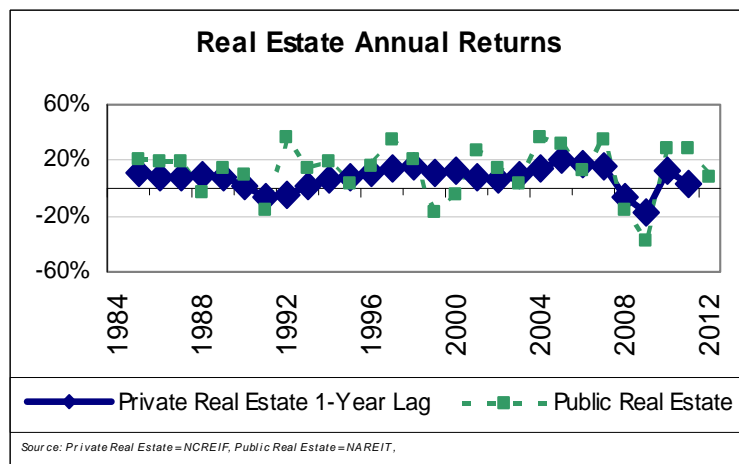


- Commercial real estate represented by the FTSE NAREIT Index has rebounded strongly since the first quarter of 2009 and has been trending up.
- Though the trend remains positive, the rate of acceleration continues to be moderate throughout 2011.
- The index price broke the 200-day moving average and it is priced very near the average (at the end of October).
- Great resiliency to equity market weaknesses.

Return Outlook

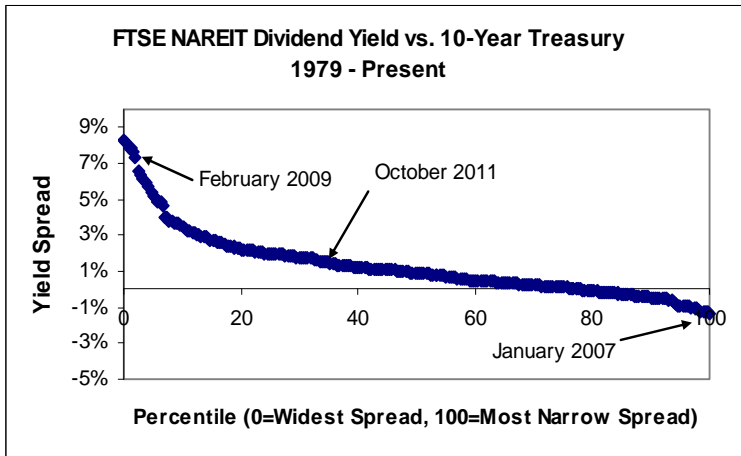


- REITs prices have trended around CPI.

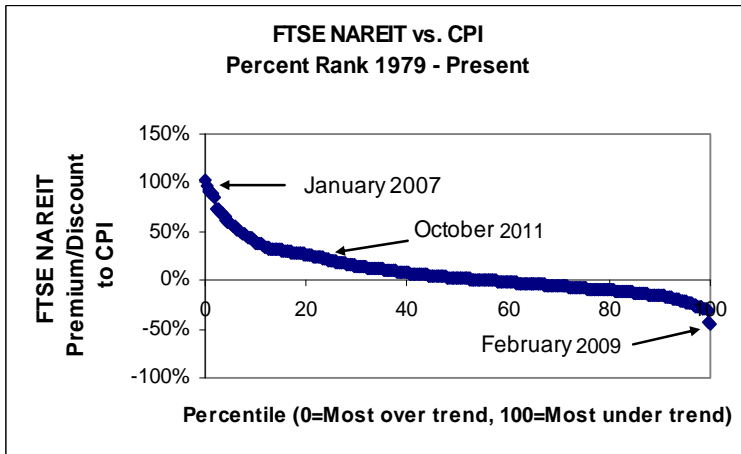


- Private real estate returns historically have followed public real estate (REIT) returns.
- Using the public REIT market as a guide, private real estate returns could return 10%+ over the next few years.

U.S. Real Estate - Continued



- The Index normally yields 1% more than 10-Year Treasuries.
- Current dividend yield is at 3.6%.
- When compared against the 10-Year Treasury, REITs are reasonably priced.



- REITs have priced lower ~ 21% of the time.
- REITs are expensive when compared to the CPI.

Commodities

CRB Index



- Commodity prices, as measured by the ThomsonReuters / Jeffries CRB Index, have resumed the same trajectory as the early part of the decade.
- At the December 2010 IAC Meeting, we highlighted strengthening commodity prices as a concern. CPI consensus forecast was 1.6% for 2011, we thought that going up to 5% was possible. Last report was at 3.9%.

CRB Food Index



- Inflation does not appear to be a 2012 concern.
- CRB Food index remains elevated
- Index price break-out in late 2010
- Price increase trend has moderated

CRB Raw Industrials Index



- CRB Raw Industrials index resumes long-term trend.
- Price increase trend is decelerating

Looking Ahead to 2012

Five-Year Italian Bond Yield – 12/31/06 – 10/31/11



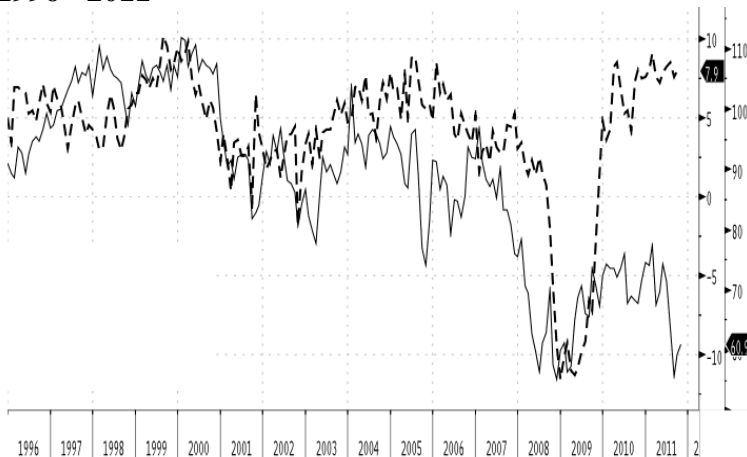
- June 2008 – December 2009 – Yields fall as sovereign debt is viewed as safe/desirable.
- First identified this risk at the March 2010 IAC Meeting.
- 2010 was a volatile year for Italian sovereign debt.
- 2011 started with a steady, but manageable increase in yield.
- July 2011 spikes in yields demonstrate a very unhealthy environment.

MF Global vs Five-Year Italian Bond Yield Invested – 12/31/10 – 10/31/11



- MF Global attempted to earn excess returns by holding Italian debt on its books.
- On October 31, 2011, MF Global filed for Chapter 11 bankruptcy.
- Very unlikely any publically traded financial company will hold Italian sovereign debt – or any troubled nation's debt.

Retail Sales YOY Growth vs. Consumer Confidence – 1996 - 2011



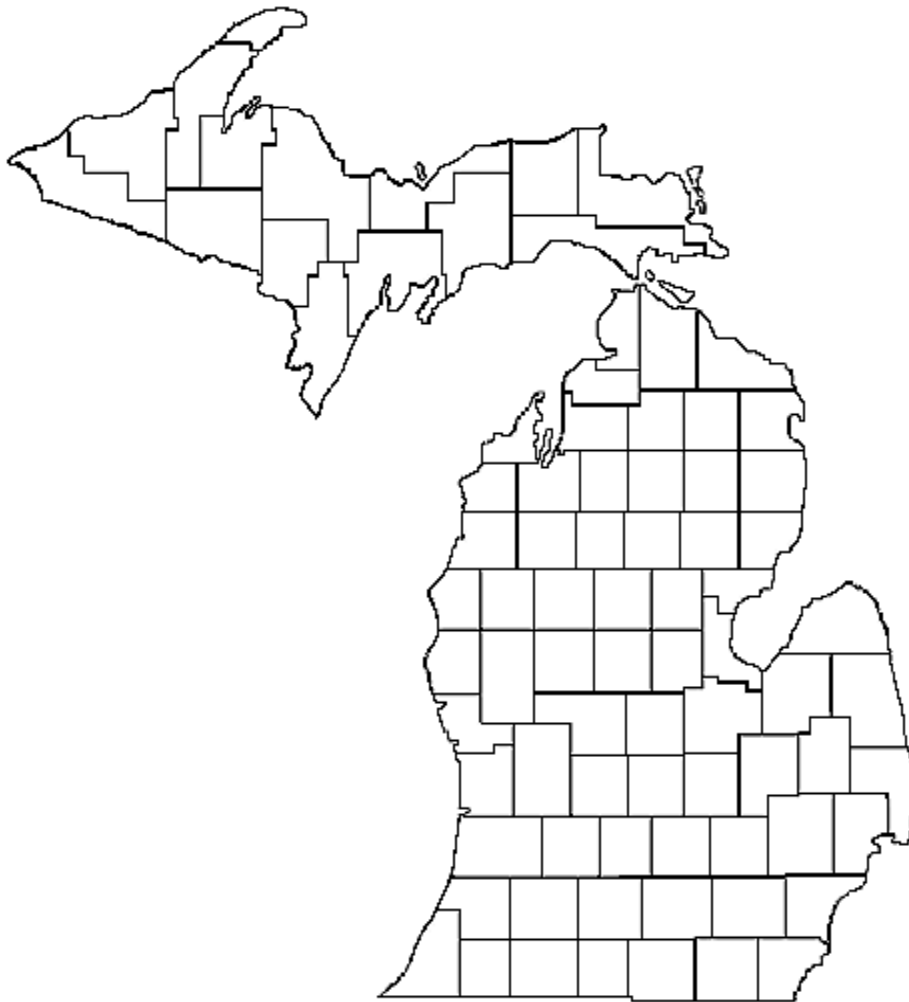
- Since 1996, a very strong relationship.
- At the latest confidence reading, year-over-year growth should be ~ -10% instead of +7.9%
- How will this gap close?

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

**ECONOMIC AND MARKET REVIEW
AND OUTLOOK**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



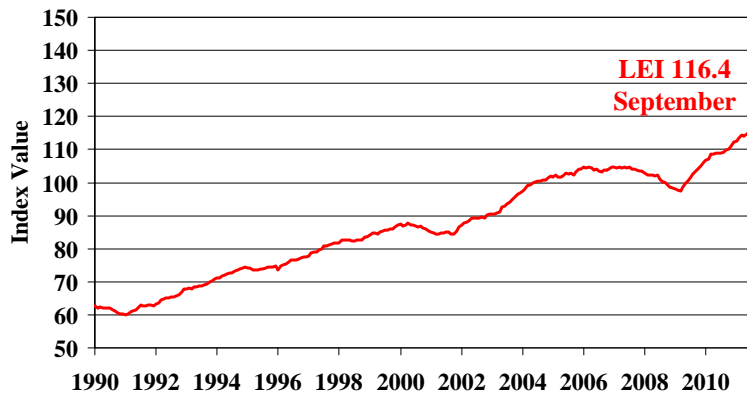
**Gregory J. Parker, CFA
Director of Investments – Public Markets
Director of Asset Allocation
Bureau of Investments**

Economic Outlook Summary

- A reduction in government spending will be a drag on economic growth at the local, state and federal levels.
- Consumers are still faced with weak labor markets and tighter credit.
- Households continue to deleverage, with inflation fears boosted by higher energy and food prices and no real gain in personal incomes.

IAC 12-1-11

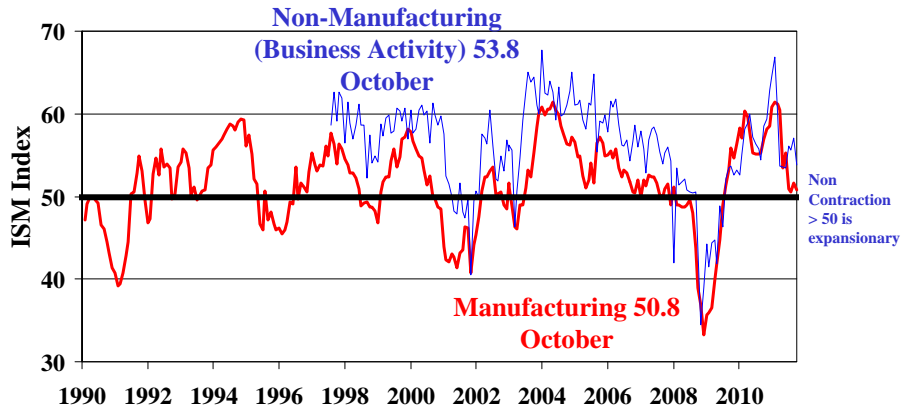
U.S. Leading Economic Indicators Slow Road To Recovery



Source: Bloomberg

IAC 12-1-11

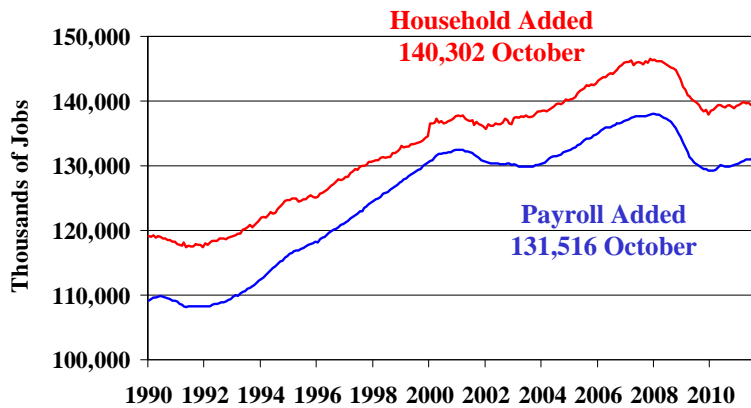
Manufacturing/Non-Manufacturing Still Barely In Expansion Mode



Source: Institute for Supply Management

IAC 12-1-11

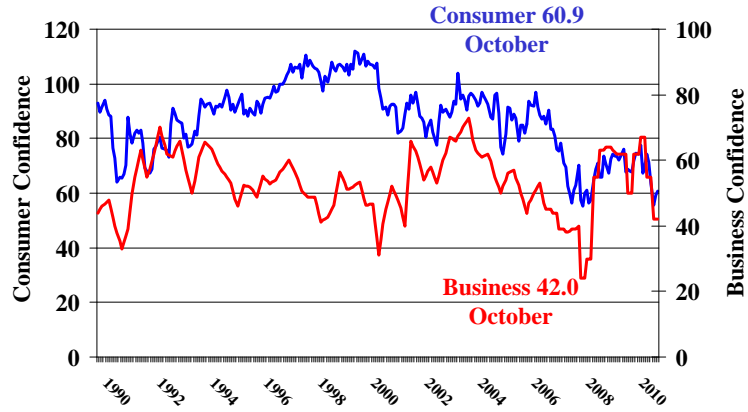
Job Market Growth Remains Weak



Source: U.S. Department of Labor, Bureau of Labor Statistics

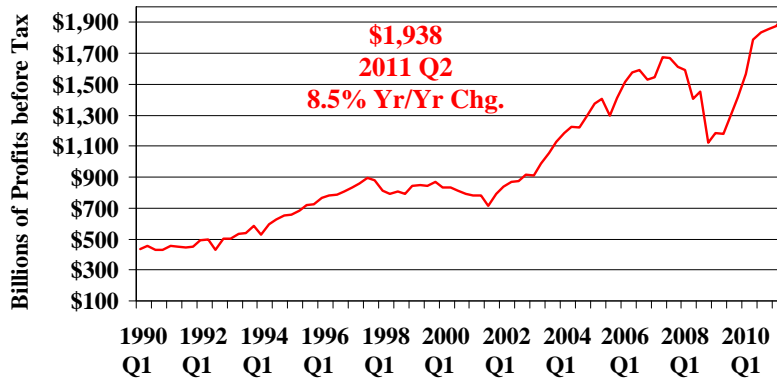
IAC 12-1-11

CEO & Consumer Confidence Lowest Level In Over Two Years



Sources: University of Michigan, Survey Research Center and The Conference Board IAC 12-1-11

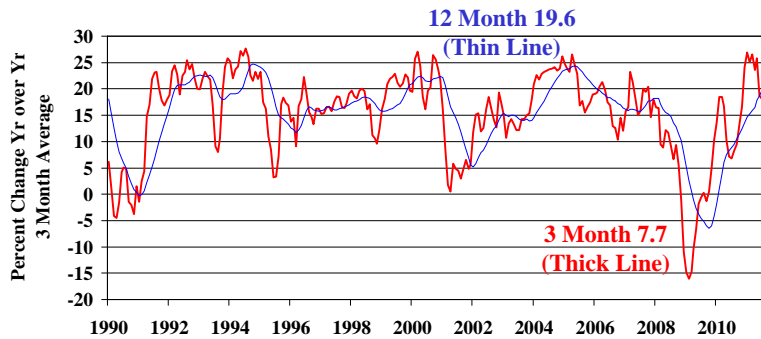
Corporate Profits Improving



Source: U.S. Department of Commerce, Bureau of Economic Analysis IAC 12-1-11

Capital Spending Expectations Waning Short Term

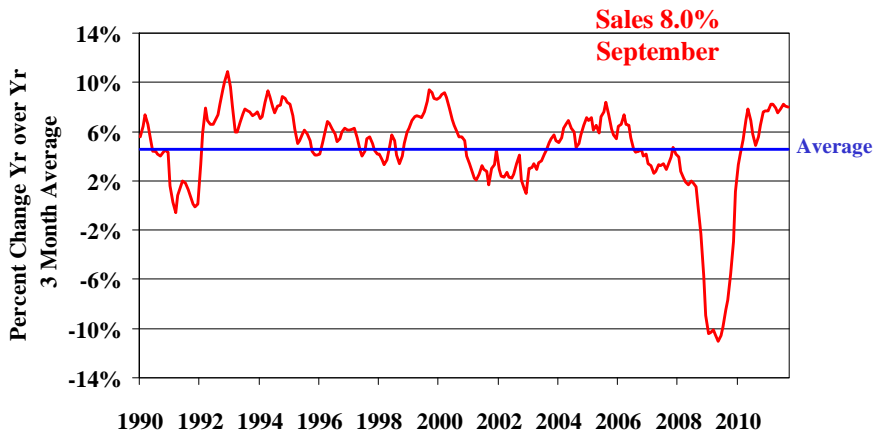
Philadelphia Federal Reserve Bank Capital Spending Expectations Index



Source: Philadelphia Federal Reserve Bank

IAC 12-1-11

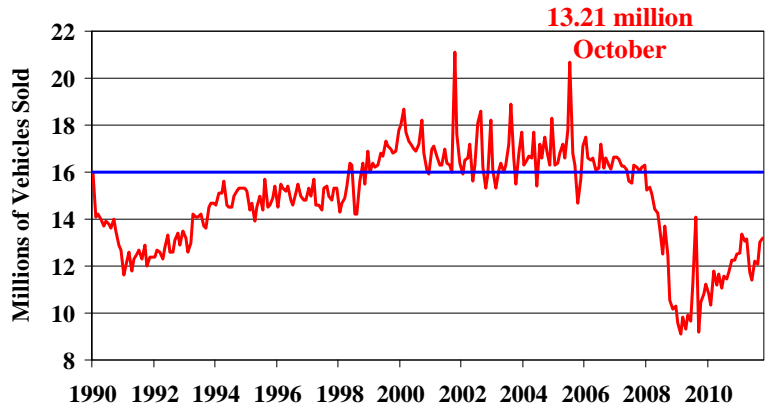
Retail Sales Growth Remains Weak



Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

U.S. Light Vehicle Sales Improving



Source: U.S. Department of Commerce, Bureau of Economic Analysis, and Bloomberg

IAC 12-1-11

Capital Spending Increasing

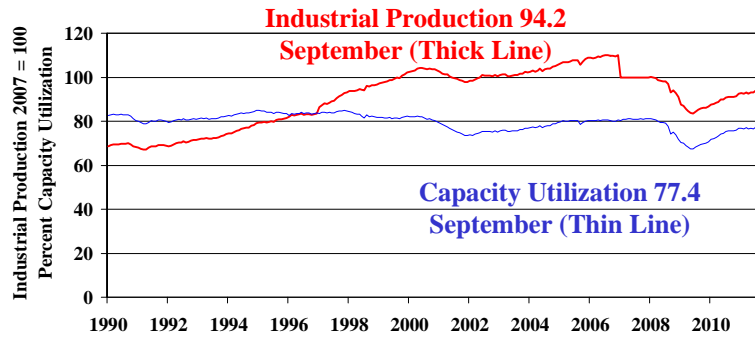
New Orders for Durable Goods (Excluding Aircraft and Defense)



Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

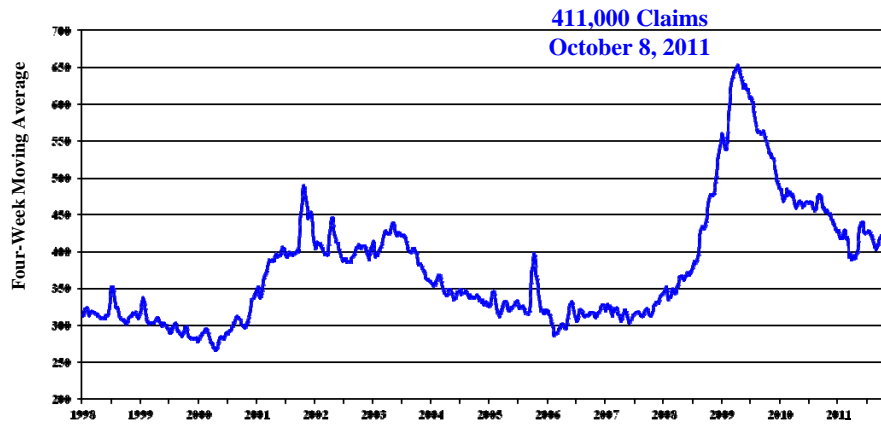
Industrial Production and Capacity Utilization Increasing Moderately



Source: U.S. Federal Reserve Bank

IAC 12-1-11

U.S. Labor Market Still Sluggish Initial Unemployment Claims & Four-Week Moving Avg. Trending Down



Source: U.S. Department of Labor, Employment and Training Administration

IAC 12-1-11

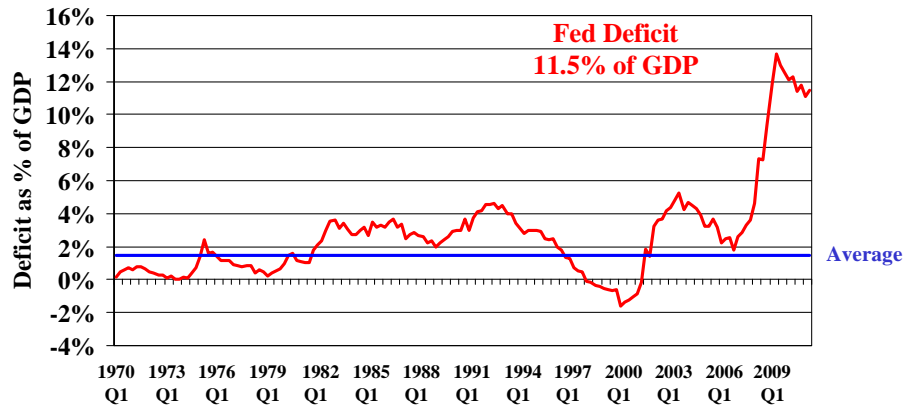
Existing Home Sales and Housing Starts Remain Weak



Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

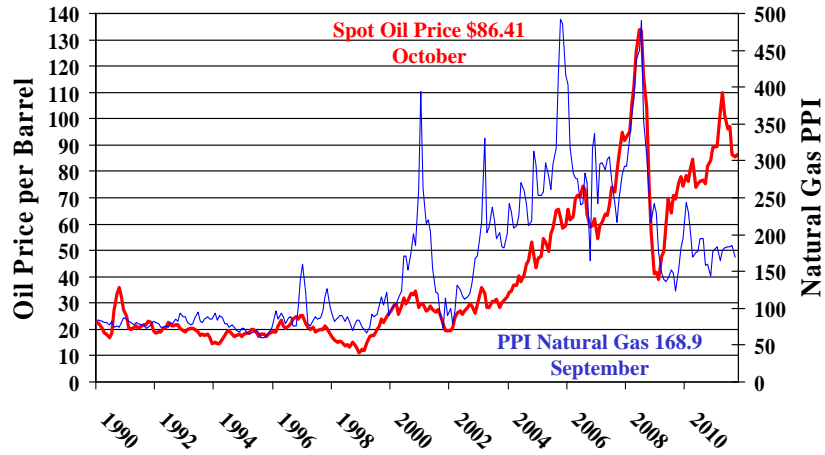
U.S. Federal Deficit Remains High



Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

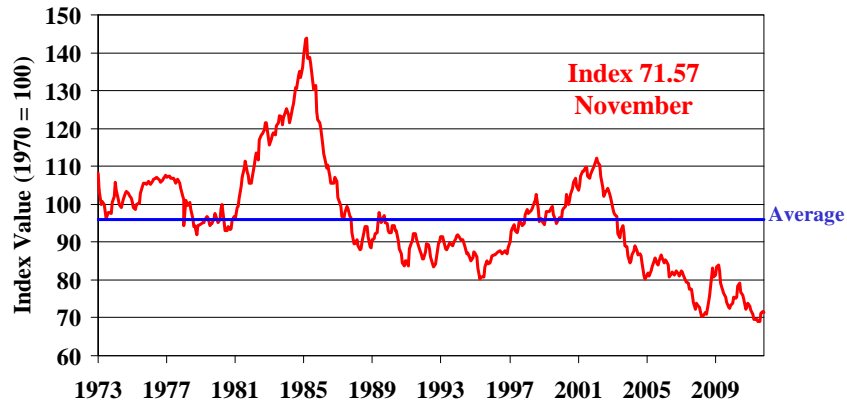
Natural Gas and Oil Prices Decreasing



Sources: U.S. Department of Labor, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

IAC 12-1-11

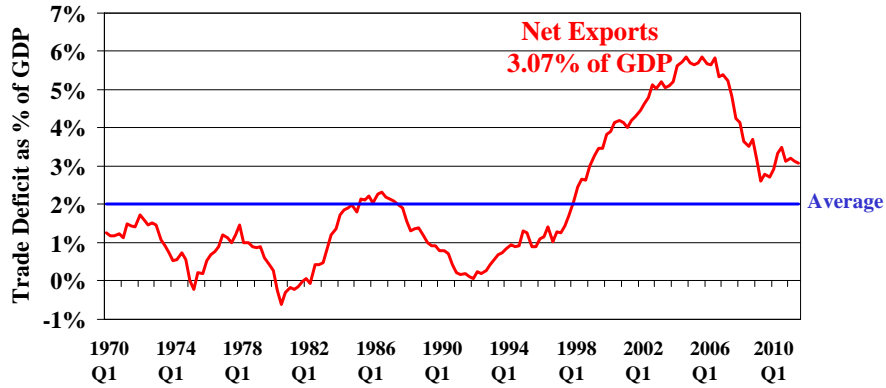
Trade Weighted U.S. Dollar Strengthening



Source: Federal Reserve Board

IAC 12-1-11

U.S. Foreign Trade Deficit Decreasing

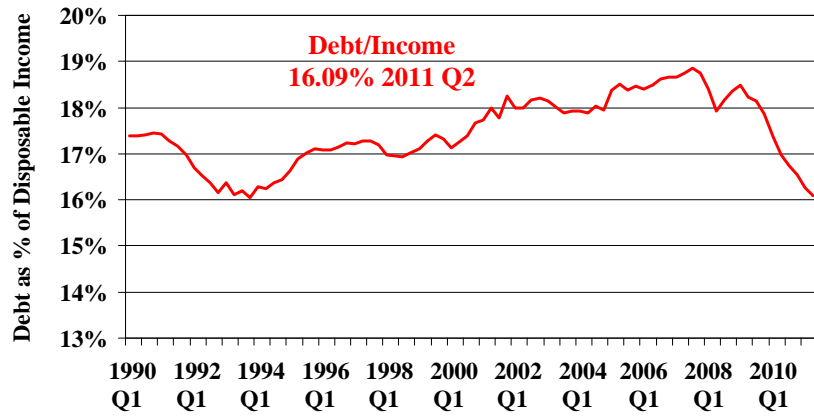


Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

Consumers Remain Focused On Paying Off Debt

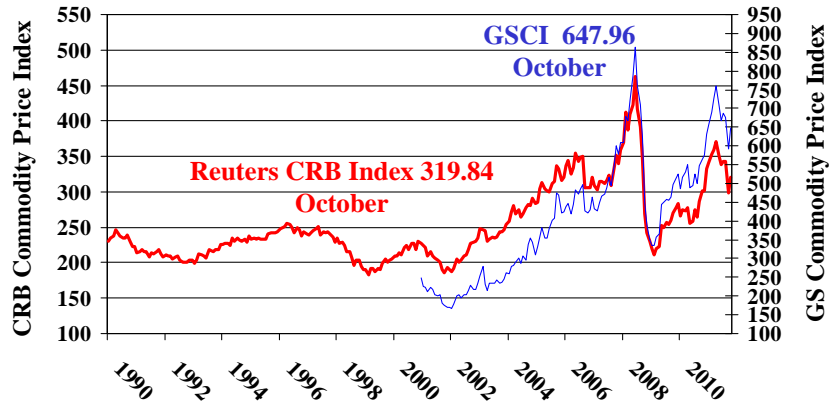
Financial Obligations as Percent of Disposable Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis

IAC 12-1-11

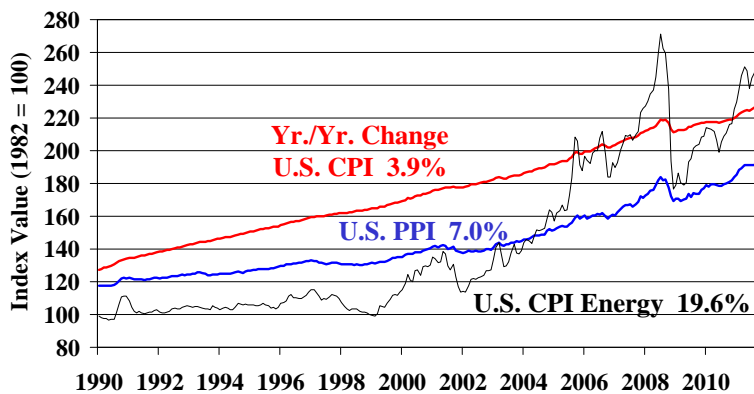
Commodity & Energy Index Prices Decreasing



Sources: Reuters, Goldman Sachs, Bloomberg

IAC 12-1-11

Consumer and Producer Prices Increasing

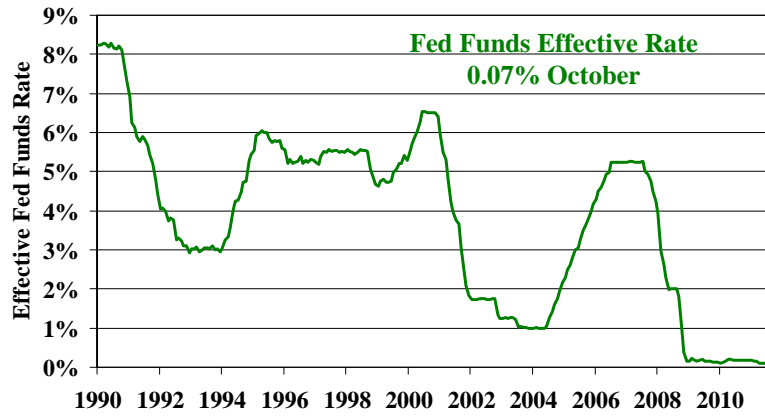


Note: Rates are year over year for latest month, seasonally adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics

IAC 12-1-11

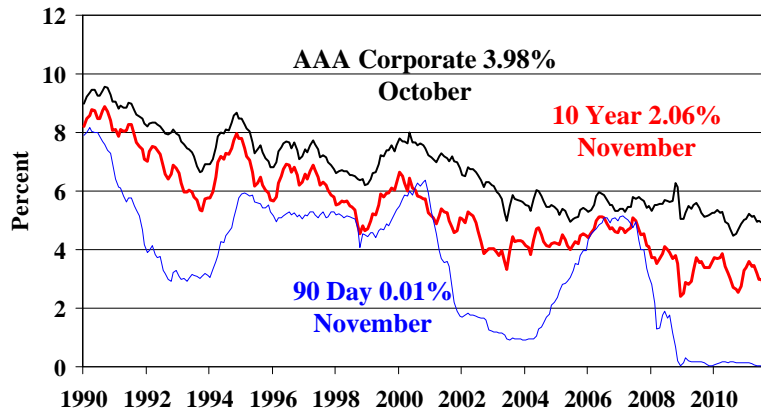
Federal Open Market Committee Holds Fed Funds Rate Below 0.10%



Source: Federal Reserve Board

IAC 12-1-11

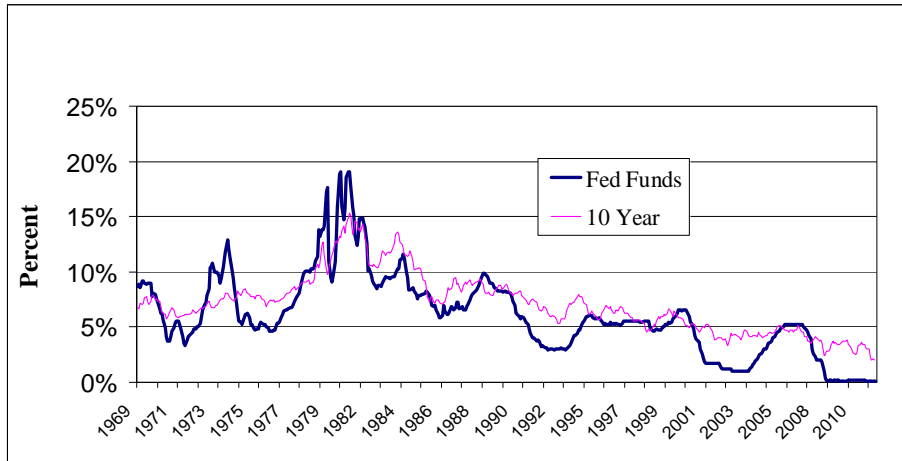
Low Interest Rates



Source: Federal Reserve Board

IAC 12-1-11

Interest Rates Remain Historically Low



Source: Federal Reserve Board, National Bureau of Economic Research

IAC 12-1-11

U.S. Economic Forecast Comparisons

<u>Real GDP Growth</u>	<u>2011</u>	<u>2012</u>
Univ. of Michigan	1.6%	2.3%
Blue Chip	1.8%	2.1%
Global Insight	1.8%	1.6%

IAC 12-1-11

Likelihood of 2011 Economic Outlook

2011-2012 Forecasts

<u>Scenario</u>	<u>Nov</u>	<u>Feb</u>	<u>May</u>	<u>Aug</u>	<u>Nov</u>
Stronger Growth	10%	5%	5%	10%	10%
Moderate Growth	70%	65%	65%	70%	70%
Slowdown	20%	30%	30%	20%	20%

IAC 12-1-11

Upside Risks To the Forecast

- Credit conditions improve quickly.
- Job growth.
- Stronger consumer spending.
- Stronger export growth.

IAC 12-1-11

Downside Risks To the Forecast

- Significant job loss/high unemployment
- Continued credit market events
- Housing market downturn
- Shock to economy from geopolitical events
 - Spread of social unrest
- Sovereign Credit Default Concerns
- Higher prices for oil, food, and other commodities

Economic and Market Outlook

November 2011

<u>Economic</u>	<u>2010</u>	Forecast	
		<u>2011</u>	<u>2012</u>
Real GDP	3.0%	1.8%	1.6%
Retail Sales	7.6%	5.5%	4.5%
Auto Sales (millions)	11.6	12.6	13.2
Housing Starts (millions)	585 5.6%	597 2.1%	665 11.4%
Corporate Profits	19.0%	6.7%	4.3%
Durable Goods	7.2%	7.6%	5.1%
Unemployment Rate	9.6%	9.9%	9.2%
<u>Prices</u>			
CPI	1.6%	3.2%	1.5%
PPI	4.2%	5.9%	0.6%
Oil (WTI Spot Price)	\$79.41 28.6%	\$92.35 16.3%	\$95.32 3.2%
Employment Cost Index	1.9%	2.2%	2.1%
Value of U.S. Dollar (FRB)	-3.4%	-6.0%	-2.0%
<u>Interest Rates</u>			
Federal Funds Rate	0.18%	0.10%	0.10%
3-Month T-Bills	0.14%	0.06%	0.06%
10 Year T-Bonds	3.21%	2.78%	2.32%
<u>Equity Markets</u>			
S&P 500 (Year End)	1,257	1,325	1,450
Change	-11.4%	5.4%	9.4%
Operating EPS (Year End)	\$83.77	\$97.70	\$108.00
Change	9.6%	16.6%	10.5%
Multiple on Fair Value	15.0 X	13.6 X	13.4 X
Dividend (Year End)	\$22.73	\$26.25	\$30.00
Change	-6.5%	15.5%	14.3%
As a % of Earnings	27.1%	26.9%	27.8%
Yield	1.81%	1.98%	2.07%

Source: Economic Data and Interest Rates - Global Insight

Value of U.S. Dollar (FRB) - RSQE/University of Michigan

S&P 500: Historical One-Year Standard Deviation equals 22%.

Economic and Market Balance Sheet

Based on Current Economic Conditions

November 2011

Assets	Liabilities
<ul style="list-style-type: none">• Easy Monetary Policy• Rising Productivity• Strong Corporate Balance Sheets• GDP Growth	<ul style="list-style-type: none">• High Unemployment• Weak Housing Market• Weak Dollar & Consumer Spending• Geopolitical Turmoil• Sovereign Credit Default Concerns (PIIGS) - Euro Crisis• Federal Budget Deficit Government Debt Worries• Stress on State and Local Governments' Budgets• Rising Commodity Prices• High Energy Prices

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

**ALTERNATIVE INVESTMENTS
REVIEW**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Peter A. Woodford, Administrator
Alternative Investments Division**

EXECUTIVE SUMMARY

General Overview

- The outlook for private equity remained positive early in the 3rd quarter, as U.S.-based buyout shops continued to take advantage of M&A exit opportunities, IPO exits, and healthy credit markets. However, a shift in market sentiment occurred after S&P downgraded its long-term sovereign credit rating on the U.S. from AAA to AA+ on August 5. Stock market volatility closed the IPO window, credit markets tightened in response to the European debt crises and continued uncertainty about the U.S. economy has hurt both public and private markets. As a result of these events, Alternatives mark-to-market valuation increased only slightly for the quarter.
- Third quarter distributions were \$472 million. Capital calls for the same period were \$366 million. Year-to-date distributions were \$2.07 billion compared to capital calls of \$1.13 billion. A surplus of \$942 million.
- Four new commitments were approved during the 3rd quarter: \$30 million to Riverside, \$35 million to Credit Suisse, \$125 million to Leonard Green, and \$125 million to KKR. These commitments allow the SMRS to participate in market opportunities for emerging managers as well as the small, middle, and large buyout space.

Outlook

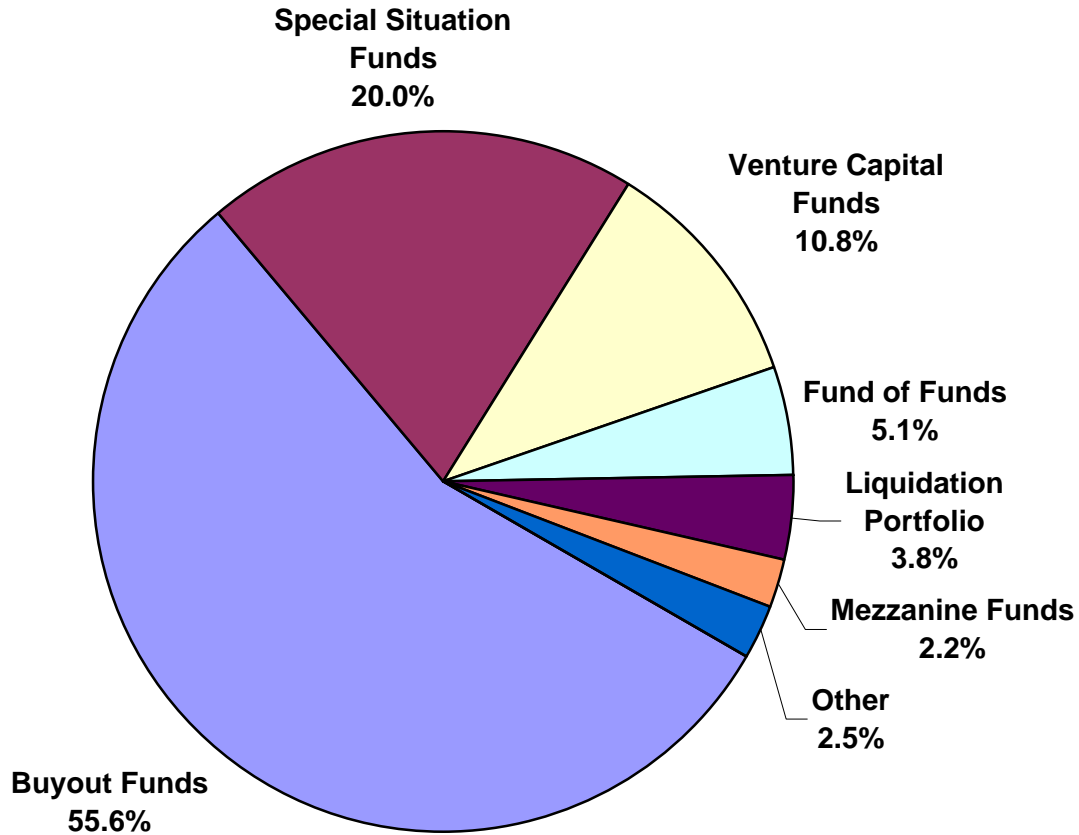
- As we look forward to the 4th quarter, nervousness pervading the credit markets has cast a shadow on buyout activity. Uncertainty makes it difficult to price deals, as well as pick sectors that might present the best opportunities. I expect a slowdown in deal activity and valuations to decrease in the 4th quarter.
- The current market turmoil should play well for turnaround investors. Although markets may have bounced back, the broader economy has scarcely risen out of the recession. As a result, deals that were done in anticipation of economic improvement have caused companies to limp along leading to creditor fatigue. It's going to be increasingly difficult for companies to refinance. If macroeconomic factors do not improve and credit markets remain tight, defaults will likely rise.
- Requests for investment period extensions will continue. This slow-down comes at a time when sponsors are eager to invest the billions raised before the financial collapse of 2008, from funds whose expiration dates are nearing. Cambridge Associates estimates that U.S.-based sponsors were sitting on \$376 billion of uncommitted capital at the end of 2010.
- Fundraising will remain competitive. Pension funds, endowments, and other limited partners have begun to pull back in the wake of renewed market upheaval and lingering economic uncertainty. The competition between sponsors raising funds will intensify as the pool of capital shrinks.
- InvestMichigan! update: the program has committed \$147 million to 26 deals and has reserved an additional \$56 million for follow-on investments. Although the program is still actively investing, there have been two realizations and one dividend recap. The InvestMichigan! Mezzanine Fund was recently formed in partnership with the U.S. SBA to target investment opportunities in lower middle market Michigan companies. The \$130 million fund was capitalized with \$80 million from the SBA, \$20 million from InvestMichigan! and \$30 million from other investors.



SMRS

Alternative Investments

9/30/11



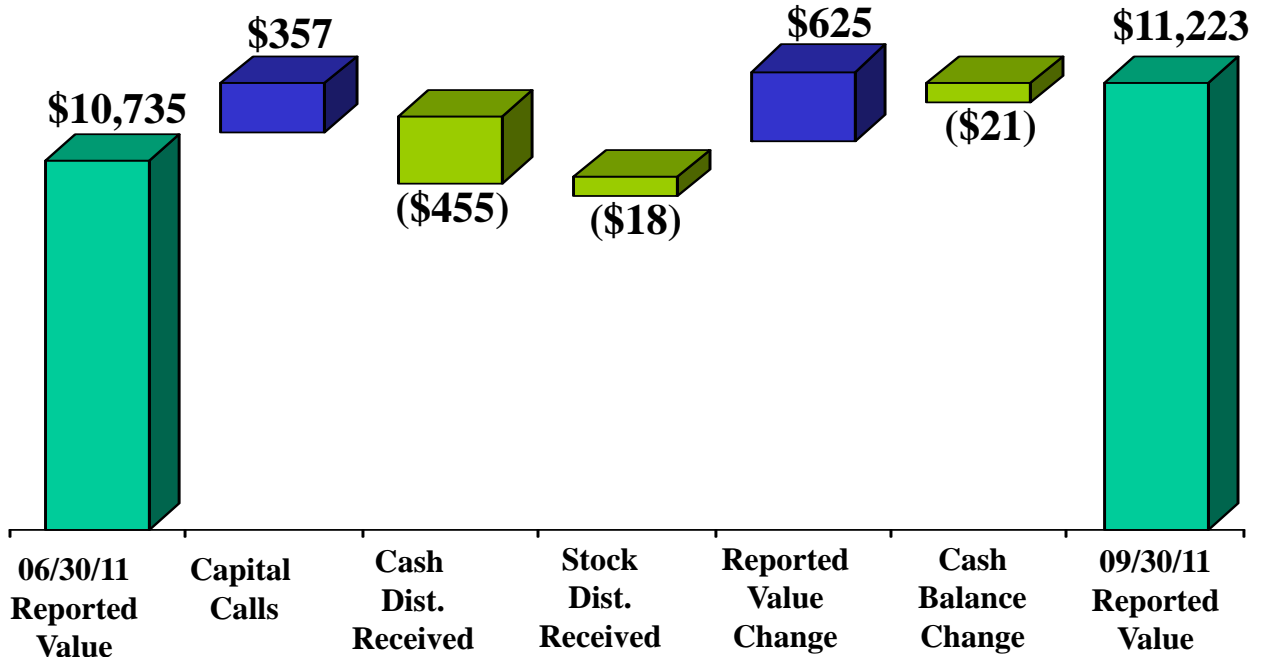
	Market Value in Millions			
	9/30/2011		6/30/2011	
Buyout Funds	\$6,244	55.6%	\$5,963	55.6%
Special Situation Funds	2,244	20.0%	2,134	19.9%
Venture Capital Funds	1,216	10.8%	1,109	10.3%
Fund of Funds	577	5.1%	578	5.4%
Liquidation Portfolio	423	3.8%	390	3.6%
Mezzanine Funds	243	2.2%	237	2.2%
Other	276	2.5%	324	3.0%
Total	\$11,223	100.0%	\$10,735	100.0%

(\$ Millions)

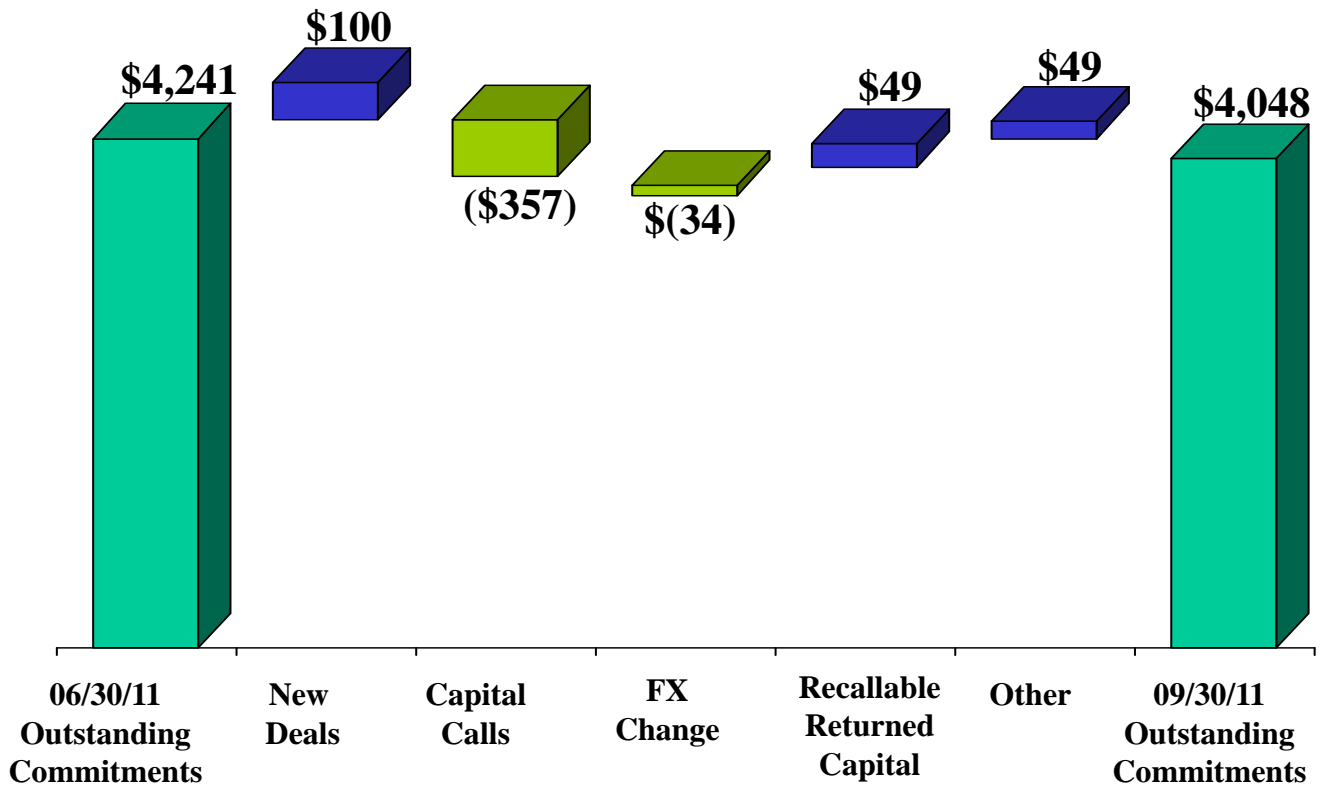
Alternative Investments Division

As of September 30, 2011

Invested Commitments



Outstanding Commitments



(\$ Millions)

Alternative Investments Division

As of September 30, 2011

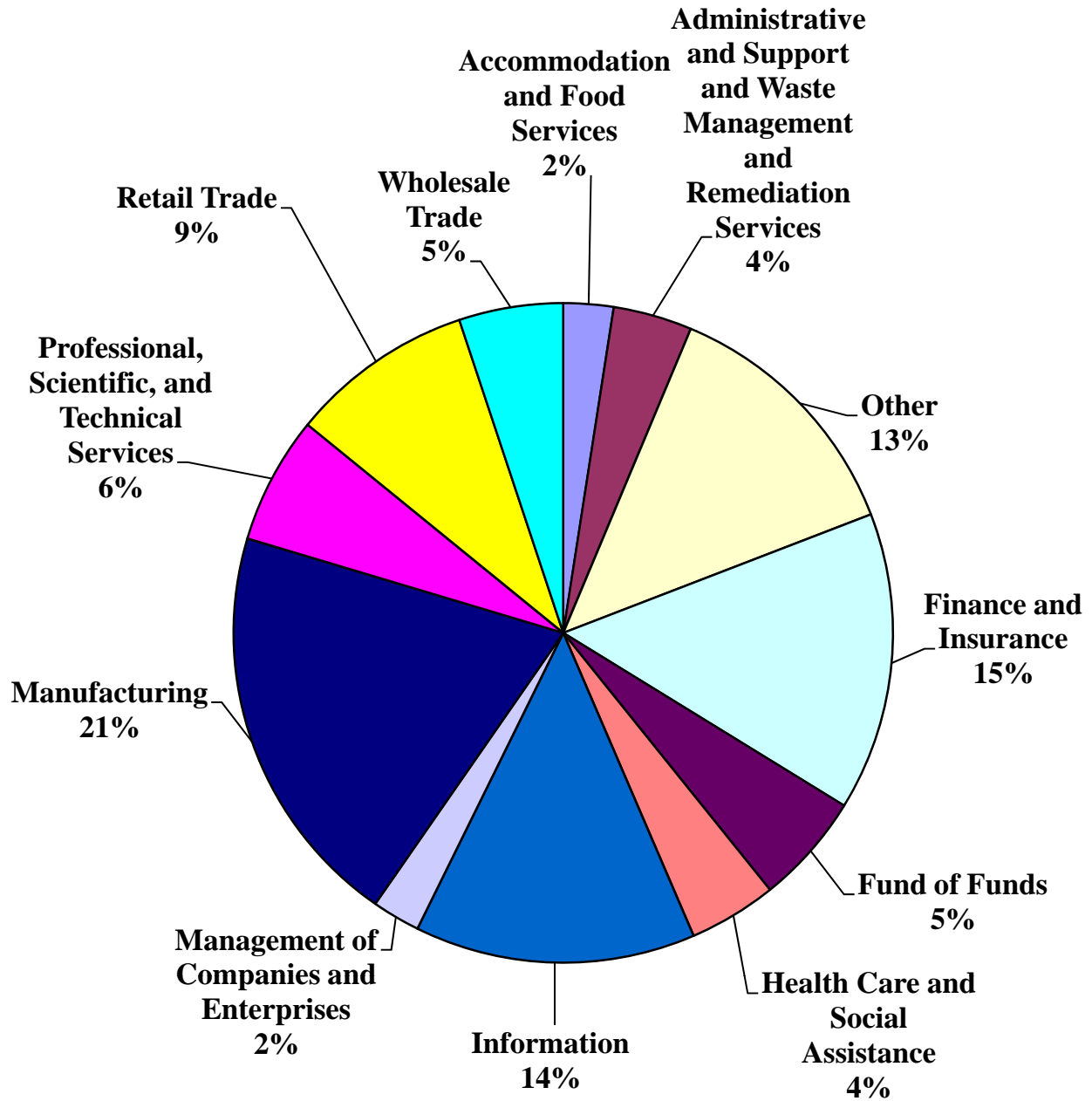
Portfolio Profile

<u>Asset Type</u>	<u>Reported Value</u>	<u>Outstanding Commitment</u>	<u>Total Exposure</u>
Buyout	\$ 6,244	\$ 2,479	\$ 8,723
Venture Capital	1,216	373	1,589
Special Situations	2,136	727	2,863
Fund of Funds	577	183	760
Hedge Funds - Equity	38	-	38
Liquidation Portfolio	424	29	453
Active Small Cap - Stock Dist	-	-	-
Total Alternative Equities	\$ 10,635	\$ 3,791	\$ 14,426
Mezzanine Debt	\$ 243	\$ 225	\$ 468
Special Situations	107	32	139
Hedge Funds - Fixed Income	113	-	113
Cash	125	-	125
Total Alternative Fixed Income	\$ 588	\$ 257	\$ 845
Total Alternative Investments	\$ 11,223	\$ 4,048	\$ 15,271

Alternative Investments Division

As of September 30, 2011

Investments By Industry

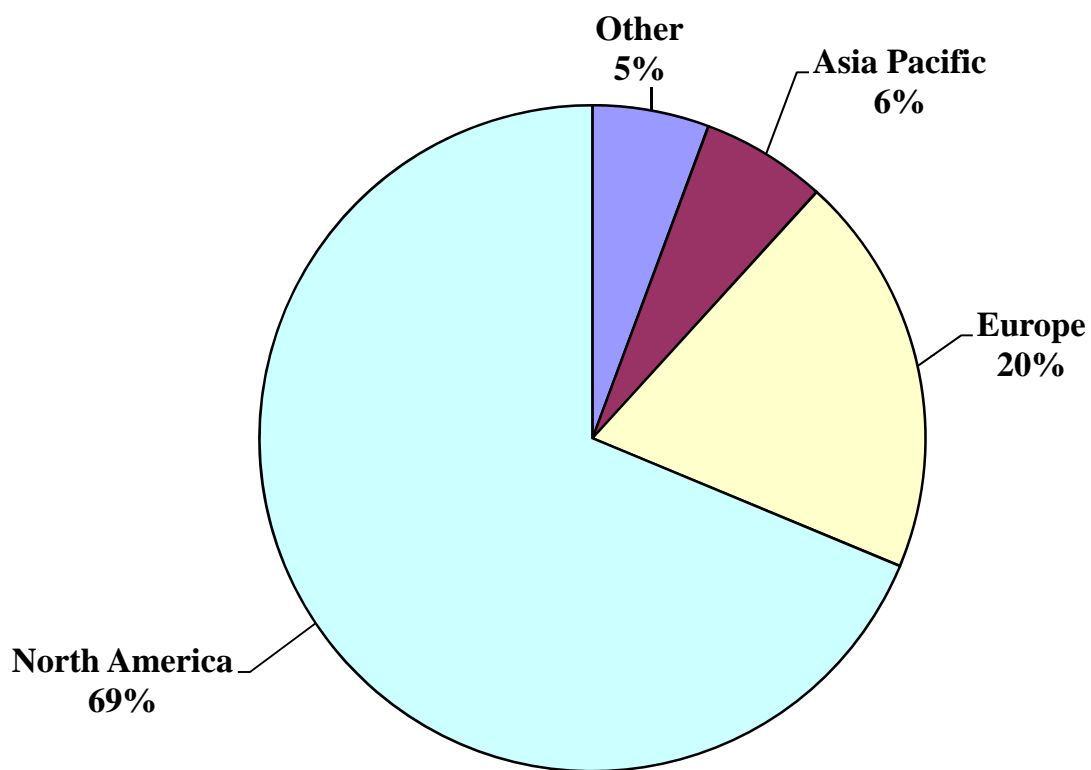


These numbers are based on the most recent available General Partner Data; primarily 06/30/2011 and are subject to change.

Alternative Investments Division

As of September 30, 2011

Investments By Region

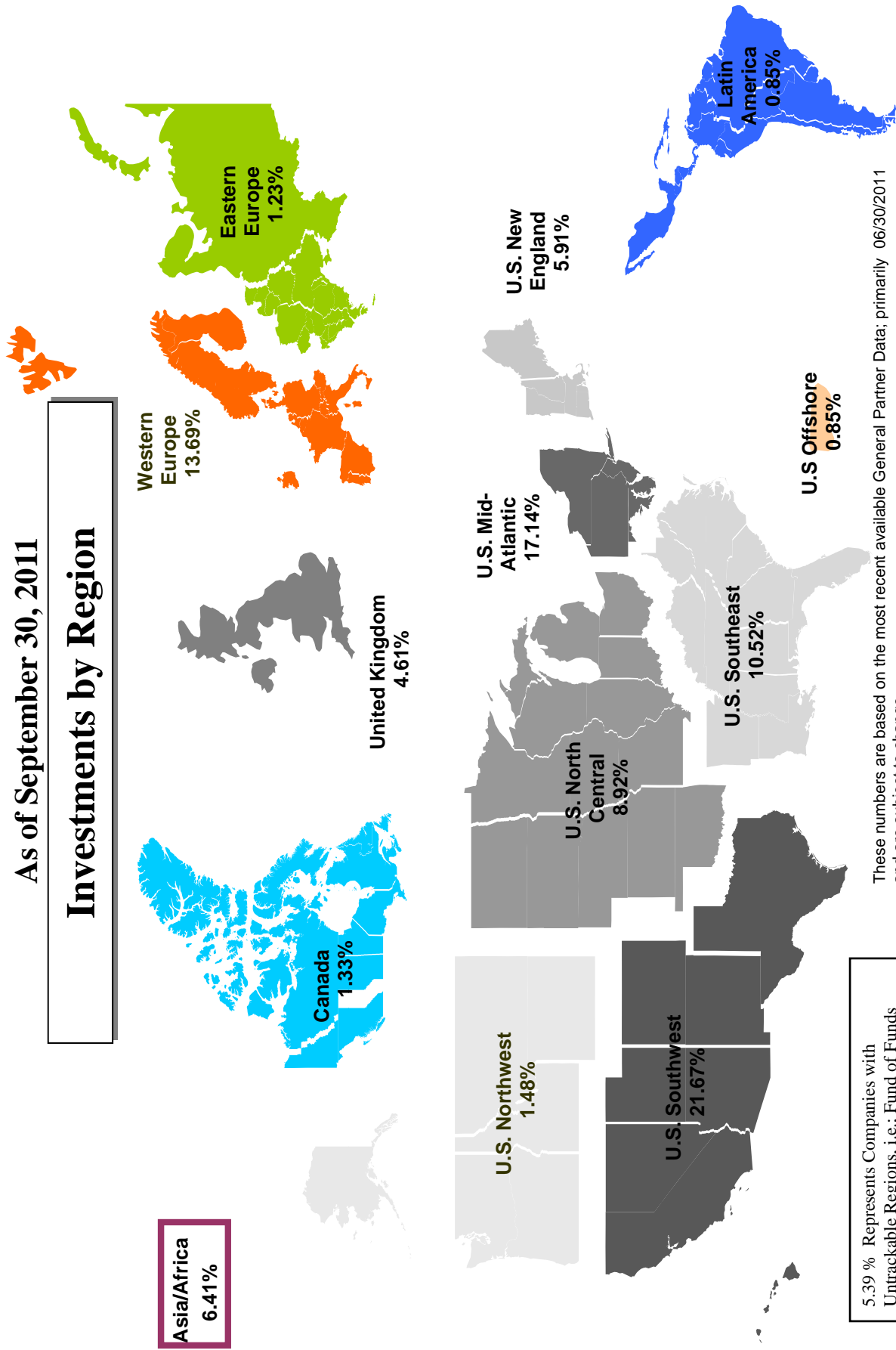


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Alternative Investments Division

As of September 30, 2011

Investments by Region



5.39 % Represents Companies with Untrackable Regions, i.e.; Fund of Funds

These numbers are based on the most recent available General Partner Data; primarily 06/30/2011 and are subject to change.

(\$ Millions)

Alternative Investments Division

As of September 30, 2011

Portfolio By Asset Strategy

<u>Investment Fund Types</u>	<u>Reported Value</u>	<u>Outstanding Commitment</u>	<u>Total</u>	<u>Pct</u>
Large Buyout	\$ 3,970	\$ 1,400	\$ 5,370	35%
Small Middle Market Buyout	2,274	1,079	3,353	22%
Buyout Total	\$ 6,244	\$ 2,479	\$ 8,723	57%
Early Stage Venture Capital	\$ 546	\$ 151	\$ 697	4%
Late-Stage Venture Capital	198	99	297	2%
Multi-Stage Venture Capital	472	123	595	4%
Venture Capital Total	\$ 1,216	\$ 373	\$ 1,589	10%
Co-Investment Funds	\$ 608	\$ 32	\$ 640	4%
Global Opportunity Funds	689	122	811	6%
Secondary Funds	203	167	370	2%
Distressed	355	174	529	4%
Special Situations	281	232	513	3%
Natural Resources	-	-	-	0%
Special Situations Total	\$ 2,136	\$ 727	\$ 2,863	19%
Fund of Funds	\$ 577	\$ 183	\$ 760	5%
Hedge Funds – Equity	\$ 38	\$ -	\$ 38	0%
Liquidation Portfolio	\$ 424	\$ 29	\$ 453	3%
Active Small Cap - Stock Dist.	\$ -	\$ -	\$ -	0%
Total Alternative Equities	\$ 10,635	\$ 3,791	\$ 14,426	94%
Mezzanine Debt	\$ 243	\$ 225	\$ 468	3%
Special Situations	107	32	139	1%
Hedge Funds – Fixed Income	113	-	113	1%
Cash	125	-	125	1%
Total Alternative Fixed Income	\$ 588	\$ 257	\$ 845	6%
Total Alternative Investments	\$ 11,223	\$ 4,048	\$ 15,271	100%

(\$ Millions)

Alternative Investments Division

As of September 30, 2011

Top 10 Sponsors

<u>Asset Type</u>	<u>Reported Value</u>	<u>Outstanding Commitment</u>	<u>Total</u>
Kohlberg Kravis & Roberts	\$ 927	\$ 202	\$ 1,129
Credit Suisse Group	891	199	1,090
Glencoe Capital	681	133	814
Carlyle Group	592	207	799
Blackstone Capital Partners	419	348	767
Warburg Pincus Capital	601	58	659
TPG Group	394	213	607
Providence Equity Partners	394	75	469
Green Equity Investors	357	84	441
Doughty Hanson & Co.	291	95	386
Top 10 Total Value	<u><u>\$ 5,547</u></u>	<u><u>\$ 1,614</u></u>	<u><u>\$ 7,161</u></u>

Cash Weighted Rates Of Return*

<u>(Net IRR)</u>	<u>Current Qtr.</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Buyout	5.3%	29.6%	7.0%	12.5%	12.1%
Venture Capital	10.2%	41.8%	9.5%	12.1%	2.0%
Special Situations	5.4%	26.1%	6.6%	7.6%	8.2%
Fund of Funds	3.7%	19.6%	3.1%	8.8%	6.2%
Hedge Funds	-0.2%	12.0%	5.7%	4.3%	6.1%
Mezzanine Debt	3.7%	17.2%	15.9%	16.5%	4.3%

*These numbers are based on most recent available General Partner reported data; primarily 06/30/2011 and are subject to change.

Alternative Investments Division

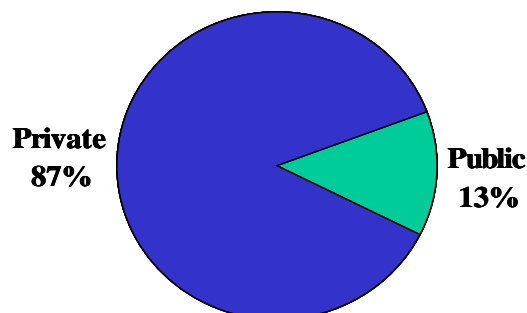
As of September 30, 2011

Portfolio By Vintage Year

<u>Asset Vintage</u>	<u>Reported Value</u>	<u>Outstanding Commitment</u>	<u>Total Exposure</u>
1986-93	\$11	\$2	\$13
1994	1	-	1
1995	23	7	30
1996	21	2	23
1997	21	21	42
1998	105	24	129
1999	316	97	413
2000	431	60	491
2001	577	85	662
2002	902	23	925
2003	469	32	501
2004	919	68	987
2005	1,465	148	1,613
2006*	3,056	738	3,794
2007	1,542	723	2,265
2008	981	1,219	2,200
2009	107	130	237
2010	124	188	312
2011	27	481	508
Cash	125	-	125
Act. Small Cap - Stock Dist	-	-	-
Total	\$11,223	\$4,048	\$15,271

* Liquidation portfolio is 2006 vintage

Public/Private Exposure



(\$ Millions)

Alternative Investments Division

As of September 30, 2011

Summary Of Transactions

<u>Month</u>	<u>Capital Calls*</u>	<u>Distributions Received</u>	<u>Net Cash Flow</u>
October 2010	\$116	\$266	\$150
November	189	177	(12)
December	<u>254</u>	<u>382</u>	<u>128</u>
Total Quarter	\$559	\$825	\$266
January 2011	\$143	\$184	\$41
February	102	289	187
March	<u>211</u>	<u>417</u>	<u>206</u>
Total Quarter	\$456	\$890	\$434
April 2011	\$81	\$200	\$119
May	104	284	180
June	<u>124</u>	<u>227</u>	<u>103</u>
Total Quarter	\$309	\$711	\$402
July 2011	\$120	\$175	\$55
August	129	157	28
September	<u>117</u>	<u>140</u>	<u>23</u>
Total Quarter	\$366	\$472	\$106
Trailing Twelve Month	<u>\$1,690</u>	<u>\$2,898</u>	<u>\$1,208</u>

* Includes Fees and Expenses Paid Outside of Commitment

FX Exposure

	<u>Reported Value</u>	<u>Oustanding Commitment</u>	<u>Total Exposure</u>	<u>Total (USD)</u>
Euro (\$1.341699/ €)	€955	€301	€1,256	1,685
Pound (\$1.557799/ £)	£10	£3	£13	20
Yen (\$0.012973/ ¥)	¥84	¥0	¥84	1

Net Market Values by Ownership Entity
September 30, 2011

Fund Name	ARV	Unfunded Commitment
Accel Europe I, L.P.	\$ 16,806,850	\$ 1
Accel Europe II	23,789,584	3,300,000
Accel Growth Fund II, L.P.	-	12,000,000
Accel IX, L.P.	132,859,171	3,000,000
Accel V, L.P.	100,549	-
Accel VI, L.P.	3,381,419	-
Accel VII, L.P.	2,959,626	5,000,000
Accel VIII, L.P.	5,398,936	4,782,499
Accel VI-S	5,943,082	652,611
Accel X, L.P.	9,174,071	2,550,000
Accel XI, L.P.	800,000	7,200,000
Advent Global Private Equity III	4,629,962	20
Advent Global Private Equity IV	15,162,470	-
Advent Global Private Equity V	136,356,780	10,500,000
Advent International GPE VI-A LP	122,322,867	84,500,000
Affinity Asia Pacific Fund II, L.P.	352,943	5,288,237
Affinity Asia Pacific Fund III, L.P.	137,570,401	79,981,214
APA Excelsior IV, L.P.	305,397	-
APA Excelsior V	1,167,229	545,625
Apax Europe Fund VI	98,313,002	-
Apax Europe V, L.P.	10,686,417	405,396
Apax Europe VII, L.P.	143,999,997	34,381,037
Apax Excelsior VI	14,945,979	1,614,434
Apax Globis Japan Fund	1,084,327	-
Apax US VII	50,632,052	1,887,334
Arboretum Ventures II	2,550,542	1,995,096
Arboretum Ventures III, L.P.	1,597,259	13,245,000
Ares Corporate Opportunities Fund II	90,336,523	16,166,975
Ares Corporate Opportunities Fund III, LP	58,941,695	55,228,304
ARGUS Capital Partners	5,669,756	2,813,672
Austin Ventures VIII, L.P.	18,742,499	-
Avenue International Ltd	112,555,826	-
Avenue Special Situations Fund IV, L.P.	8,601,571	-
Avenue Special Situations Fund V, L.P.	20,191,585	-
Avenue Special Situations Fund VI (B), L.P.	38,293,591	12,145,568
Banc Fund VI	19,172,317	-
Banc Fund VII	24,043,098	-
Banc Fund VIII	7,513,560	12,800,000
Battery Ventures V, L.P.	452,478	-
Battery Ventures VI, L.P.	9,556,957	-
Battery Ventures VII, L.P.	12,789,654	755,556
Battery Ventures VIII	30,612,610	3,099,133
BC European Capital IX	8,424,512	89,250,488
BC European Capital VII, L.P.	26,317,599	-
BC European Capital VIII, L.P.	231,391,246	18,703,284
Berkshire Fund III, L.P.	274,692	445,104
Berkshire Fund IV, L.P.	2,497,694	1,898,016

**Net Market Values by Ownership Entity
September 30, 2011**

Fund Name	ARV	Unfunded Commitment
Berkshire Fund V, L.P.	8,050,233	1,900,578
Berkshire Fund VI, L.P.	65,665,350	7,008,797
Berkshire Fund VII, L.P.	115,610,270	34,437,376
Berkshire Fund VIII, L.P.	4,733,527	120,266,473
Blackstone Capital Partners IV	153,946,690	1,031,470
Blackstone Capital Partners V	226,542,294	29,444,191
Blackstone Capital Partners VI, LP	9,111,147	290,888,853
Blackstone Capital Partners V-S	20,314,409	1,000,504
Blackstone Mezzanine Partners	9,320,762	14,141,621
Blackstone Partners II, L.P.	12,972	936,340
Blackstone Partners III, L.P.	1	10,428,693
Bridgepoint Europe IV	33,935,893	38,520,527
Brockway Moran & Partners Fund III	8,218,208	7,075,116
Carlyle Asia Fund	31,548,409	5,278,440
Carlyle Europe Partners	1	2,183,880
Carlyle Europe Partners II	49,116,068	4,690,734
Carlyle Europe Partners III	105,621,332	31,424,006
Carlyle Partners II, L.P.	7,006,088	-
Carlyle Partners III, L.P.	19,179,128	14,184,834
Carlyle Partners IV, L.P.	187,366,889	16,009,296
Carlyle Partners V L.P.	191,876,961	133,458,694
Castle Harlan Partners III, L.P.	4,417,909	545,932
Castle Harlan Partners IV	10,750,629	10,572,075
Castle Harlan Partners V	18,236,892	51,404,694
CCMP Capital Investors II	126,971,338	51,402,860
Clarus Life Sciences II, L.P.	21,419,782	25,275,000
Clarus Lifesciences I	25,333,241	6,988,800
Clearstone Venture Partners (idealab)	434,800	-
Clearstone Venture Partners II (idealab)	6,835,300	-
Clearstone Venture Partners III	21,277,859	1,612,000
CMEA Ventures VI	19,357,979	2,750,000
CMEA Ventures VII, L.P.	21,324,672	13,200,000
Coller International Partners III, L.P.	3,130,803	2,400,000
Coller International Partners IV	52,283,382	14,000,000
Coller International Partners V, L.P.	147,308,901	50,300,000
Coller International Partners VI, L.P.	-	100,000,000
CSFB Fund Co-Investment Program	1,607,718	1,519,358
CSG / DLJ Fund Program II	144,537,850	28,594,516
CSG Fund Investment Program III - 2004	120,436,162	2,717,899
CSG Fund Investment Program III - 2006	104,378,453	56,730,450
CSG Fund Investment Program V, L.P.	47,497,479	78,958,380
CSG Seasoned Primary Fund Investment Program	423,325,932	29,060,510
DLJ Fund Investment Program I	49,383,251	1,234,056
DLJ Investment Partners II	2,647,399	9,910,342
DLJ Investment Partners III	28,132,412	85,491,545
DLJ Merchant Banking Partners III, L.P.	46,268,655	3,213,255
DLJ Merchant Banking Ptrs II, L.P.	3,562,018	1,856,746
Doughty Hanson & Co IV	151,083,288	4,957,631
Doughty Hanson & Co V	109,574,594	85,953,743
Doughty Hanson Co. III L.P.	30,454,488	3,993,444

Net Market Values by Ownership Entity
September 30, 2011

Fund Name	ARV	Unfunded Commitment
EDF Ventures III	4,928,286	602,426
Energy Investors III	61,901	-
Essex Woodlands Health IV	3,740,354	-
Essex Woodlands Health V	13,733,120	-
Essex Woodlands Health Ventures Fund VIII	27,295,569	42,000,000
Essex Woodlands Health VI	17,424,352	1,812,500
Essex Woodlands Health VII	74,614,838	12,000,000
FirstMark Capital Fund II (fka: Pequot PEFII)	1,471,503	-
FirstMark Capital III (fka: Pequot PEFIII)	14,628,798	272,000
FirstMark Capital IV (fka: Pequot PEFIV)	18,560,297	5,162,336
Flagship Ventures Fund 2004	24,645,033	650,000
Flagship Ventures Fund 2007, L.P.	42,955,778	8,025,000
Flagship Ventures Fund IV, L.P.	2,091,321	12,675,000
Fox Paine Capital Fund II, LP	46,935,469	16,378,811
Frontenac VII	104,625	-
Frontenac VIII	13,687,125	1,017,776
Glencoe Capital Michigan Opportunities Fund, LP	57,713,482	95,619,675
Glencoe Capital Partners II	4,697,709	355,381
Glencoe Capital Partners III	12,796,733	6,274,454
Glencoe Stockwell Fund	491,185,783	-
Glencoe Stockwell Fund II, L.P.	114,866,466	30,726,398
Globespan Capital Partners IV (Jafco)	17,404,261	1,485,000
Globespan Capital Partners V, LP	62,445,213	15,037,500
Green Equity Investors III	9,313,276	8,978,083
Green Equity Investors IV	95,205,780	2,305,568
Green Equity Investors V	252,234,848	73,452,515
Grotech Partners V	2,646,291	-
Grotech Partners VI	15,316,751	-
GSO Capital Opportunities Fund II, L.P.	-	40,000,000
H.I.G. Bayside Debt & LBO Fund II, LP	6,937,093	12,300,000
H.I.G. Brightpoint Capital Partners II	38,133,254	-
H.I.G. Capital Partners IV, L.P.	14,124,138	11,374,167
H.I.G. Europe Capital Partners L.P.	16,347,927	11,941,121
HarbourVest Int'l II Direct	112,828	-
HarbourVest Int'l II Partnership	1,370,971	799,999
HarbourVest Int'l III Direct	5,192,876	1,000,000
HarbourVest Int'l III Partnership	15,245,595	2,000,000
HarbourVest IV Partnership Fund LP	493,496	600,000
HarbourVest Partners V - Direct Fund LP	560,930	-
HarbourVest V Partnership	2,661,499	300,000
HarbourVest VI - Direct Fund LP	10,170,669	750,000
HarbourVest VI Partnership	47,827,420	3,000,000
Healthcare Venture V	2,058,477	-
Healthcare Venture VI	1,317,115	-
Healthcare Venture VII	9,898,255	712,500
Healthcare Venture VIII	20,353,982	12,900,000
InterWest Partners IX	10,510,386	4,000,000
JAFCO America Technology Fund III	3,160,694	-
JP Morgan Chase 1998 Pool Participation Fund	1,869,234	1,604,605
JP Morgan Chase 1999/2000 Pool Participation Fund	2,362,337	4,045,424

Net Market Values by Ownership Entity
September 30, 2011

Fund Name	ARV	Unfunded Commitment
JP Morgan Partners Global Investors	51,851,875	1,921,981
JPMorgan Global Investors Selldown	40,308,637	4,557,803
Kelso Investment Associates VII	98,862,901	6,496,890
Kelso Investment Associates VIII	50,796,017	91,075,680
Khosla Ventures III, L.P.	46,797,020	16,500,000
Khosla Ventures IV, L.P.	5,000,000	45,000,000
KKR 1987 Fund	8,422,140	-
KKR 1993 Fund	1,554,986	-
KKR 1996 Fund	18,617,260	-
KKR 1996 Secondary Fund	2,326,896	10,841
KKR 2006 Fund, L.P.	262,000,798	43,845,700
KKR Asia	88,485,509	29,784,000
KKR China Growth Fund	13,064,091	40,113,000
KKR E2 Investors (Annex) Fund	11,171,443	18,145,079
KKR European Fund II	117,326,575	-
KKR European Fund III	57,846,551	69,671,921
KKR European Fund LP 1	102,197,200	307,605
KKR Millennium Fund	244,059,633	-
Lightspeed Venture Partners VI	12,536,979	3,299,089
Lightspeed Venture Partners VII	33,193,065	4,710,436
Lion Capital Fund I (HME II)	8,098,745	13,612,453
Lion Capital Fund II	54,153,380	12,122,987
Lion Capital Fund III, L.P.	25,998,484	50,554,883
Long Point Capital Fund	2,764,818	1,630,617
Long Point Capital Fund II	8,292,409	1,720,302
Matlin Patterson Global Opportunities Partners	882,228	20,129,090
MatlinPatterson Global Opportunities Partners II	15,118,404	92,719
MatlinPatterson Global Opportunities Partners III	62,947,478	13,000,101
Menlo Ventures IX, L.P.	16,383,947	-
Menlo Ventures VII	590,250	-
Menlo Ventures VIII	2,845,194	-
Menlo Ventures X, L.P.	23,460,908	10,000,000
Menlo Ventures XI, L.P.	1,000,000	19,000,000
MeriTech Capital Partners II, L.P.	8,609,009	2,150,000
Meritech Capital Partners III, L.P.	128,798,829	1,200,000
Meritech Capital Partners IV, L.P.	3,841,898	16,100,000
MeriTech Capital Partners, L.P.	3,937,648	6,187,500
Michigan Growth Capital Partners, LP	106,913,471	83,530,834
MPM BioVentures III	9,515,769	-
New Leaf Ventures II, L.P.	12,371,905	19,250,000
Nordic Capital VI, L.P.	64,575,914	1,716,591
Nordic Capital VII	42,441,155	26,342,758
North Castle Partners III	4,970,600	91,219
NV Partners II	2,712,800	479,147
Oak Investment Partners X, L.P.	19,757,652	-
Oak Investments Partners IX, L.P.	3,335,923	-
OCM Opportunities Fund VII (B), L.P.	47,458,678	25,250,000
OCM Opportunities Fund VII, L.P.	36,572,506	-
OCM Opportunities Fund VIII B, L.P.	3,750,000	33,750,000
OCM Opportunities Fund VIII, L.P.	36,396,602	3,750,000

Net Market Values by Ownership Entity
September 30, 2011

Fund Name	ARV	Unfunded Commitment
OCM Principal Opportunities Fund IV	52,318,214	5,002,377
One Liberty Fund III	645,970	-
One Liberty Fund IV	1,682,088	-
One Liberty Ventures 2000	11,063,687	-
Paine & Partners Capital Fund III, LP	87,201,726	50,859,157
Parthenon Investors	2,460,755	96,798
Parthenon Investors II	22,244,772	3,417,779
Parthenon Investors III	74,026,432	11,610,589
Peninsula Capital Fund III	7,850,615	1,400,000
Peninsula Capital Fund IV	27,132,985	5,850,000
Permira Europe III LP	8,758,222	342,133
Permira Europe IV	117,854,371	27,638,999
Phoenix Equity Partners IV	15,252,987	4,578,356
Primus Capital Fund IV	507,814	500,000
Primus Capital Fund V	15,214,324	712,500
Providence Equity Partners V, L.P.	136,029,591	13,235,416
Providence Equity Partners VI, L.P.	258,044,781	61,528,258
Questor Partners Fund II	13,713,140	5,794,612
RFE Investment Partners VII, LP	17,501,999	5,196,832
RFE Investment Partners VIII, L.P.	-	30,000,000
RFE IV Venture	609,756	-
RFE V Ventures	183,334	397,091
RFE VI Ventures	1,227,924	3,211,623
Riverside Micro Cap Fund I, LP	67,270,889	6,202,593
Riverside Micro-Cap Fund II, L.P.	6,084,659	24,147,145
Silver Lake Partners II	20,411,905	3,676,533
Silver Lake Partners III	85,755,219	54,382,714
Sprout Capital IX	7,483,446	-
Sprout Capital VII	324,606	-
Sprout Capital VIII, L.P.	2,875,164	-
TCW Shared Op Fund III	2,636,648	2,781,354
TCW Shared Op Fund IV	13,553,547	4,637,341
TCW Shared Op Fund V	44,424,441	12,245,846
TCW/Crescent Mezzanine	1	-
TCW/Crescent Mezzanine II	1	-
TCW/Crescent Mezzanine Partners III, L.P.	8,931,746	4,589,152
TCW/Crescent Mezzanine Partners IV, L.P.	57,620,458	7,010,855
TCW/Crescent Mezzanine Partners V, LLC	101,466,440	57,139,199
The Huron Fund III, L.P.	11,224,412	21,772,500
The Shansby Group 4	44,365,038	1,166,257
The Shansby Group 5 (TSG5)	103,542,288	38,940,813
TPG IV (Texas Pacific Group IV)	33,361,133	3,661,118
TPG Partners II, LP	29,844	4,740,475
TPG Partners III, LP	44,959,462	34,283,293
TPG Partners VI, L.P.	134,654,091	125,720,219
TPG V (Texas Pacific Group V)	181,205,361	44,415,346
Tullis - Dickerson Capital II	6,413,623	-
Tullis - Dickerson Capital III	13,009,603	-
Unitas Asia Opportunity Fund	243,453	7,207,303
Unitas Asia Opportunity Fund II	116,640,951	14,142,670

**Net Market Values by Ownership Entity
September 30, 2011**

Fund Name	ARV	Unfunded Commitment
Unitas Asia Opportunity Fund III	31,661,689	69,665,829
Warburg Pincus Equity Partners, L.P.	15,679,344	-
Warburg Pincus International Partners	52,706,333	-
Warburg Pincus Private Equity IX	206,887,635	-
Warburg Pincus Private Equity VIII, L.P.	81,604,732	-
Warburg Pincus Private Equity X, L.P.	243,281,822	57,900,000
Warburg Pincus Ventures Int'l	415,258	-
Warburg Pincus Ventures, L.P.	227,303	-
Weiss, Peck & Greer V (adm: Opus Capital)	4,602,350	386,240
WestAm COREplus Private Equity QP	15,668,046	3,361,779
WestAm Special Private Equity Partners	11,577,240	2,578,653
Wind Point Partners III	1,173,872	-
Wind Point Partners IV	11,076,510	1,541,518
Wind Point Partners V, L.P.	14,051,687	1,929,805
Wind Point Partners VI	59,765,378	8,382,764
Wind Point Partners VII	30,339,962	43,521,928
Total Alternative Investments *	\$ 11,097,483,585	\$ 4,047,851,493

* Total Alternative Investment amounts do not include Cash and Active Small Cap

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

ABSOLUTE AND REAL RETURN REVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



James L. Elkins, Administrator
Short Term Fixed Income, Absolute and Real Return Division

EXECUTIVE SUMMARY

Absolute Return

Portfolio Performance

- Year to date the overall portfolio has underperformed the HFRI Fund of Funds Conservative Index by 43 basis points (bp). All strategies were down during the quarter on renewed European sovereign concerns, disappointing economic data and reduced expectations for the pace of global growth.

Strategy Overview

- Arbitrage - Event driven managers were down during the quarter, with the most significant losses generated from a manager's positions in the credits of European financials that sold-off as a result of European bank funding concerns. Convertible arbitrage managers struggled during the quarter and fixed income arbitrage managers were mixed. Arbitrage trades across tranches of structured credit generated gains, while yield curve arbitrage strategies were down slightly for the quarter.
- Credit/Distressed - The quarter's volatility created losses for much of the distressed manager's performing credit positions as risk premiums rose during the month, pushing yields on high-yield bonds to 9.5%. Losses from much of the long portfolio were mitigated, but not offset, by short credit positions and hedges, which include U.S. and European CDS indices and puts on equity indices. Managers are taking advantage of the volatility to add to shorter duration performing credit positions that have been oversold in recent months.
- Long/Short Equity - Most long/short managers were down during the volatile quarter as investors de-risked in August and September. Long positions in energy and financial companies were the most costly during the quarter as those industries sold-off considerably on global concerns. Short positions in more speculative technology companies helped reduce the losses, but could not fully offset them.

Current Events

- We have funded a new investment from our Fund of Hedge Fund search conducted earlier this year.

Real Return & Opportunistic

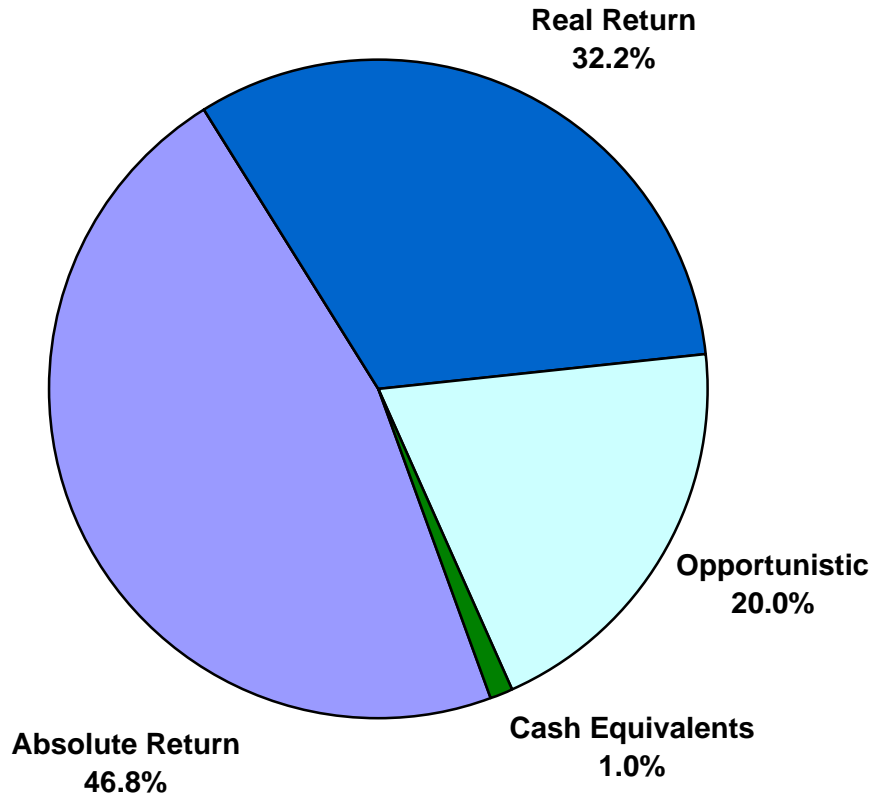
- Enhanced passive commodity strategies continue to outperform the benchmark this year with 63 bp of outperformance for the quarter. Commodity markets have fallen in with all other assets to the risk on - risk off trading. Return correlations with the equity markets have been high and trading has been focused on macro events and not supply and demand characteristics, therefore, we have not grown the portfolio during the quarter.
- Direct lending managers continue to see a very robust new deal pipeline. Quality borrowers, who are too small to access debt markets are still having difficulty finding a good credit source.



SMRS

Absolute and Real Return

9/30/2011



Market Value in Millions				
	9/30/2011		6/30/2011	
Absolute Return	\$1,396	46.8%	\$1,268	47.5%
Real Return	958	32.2%	972	36.4%
Opportunistic	597	20.0%	427	16.0%
Cash Equivalents	30	1.0%	3	0.1%
Total Investments	\$2,981	100.0%	\$2,670	100.0%

ABSOLUTE AND REAL RETURN

As of September 30, 2011

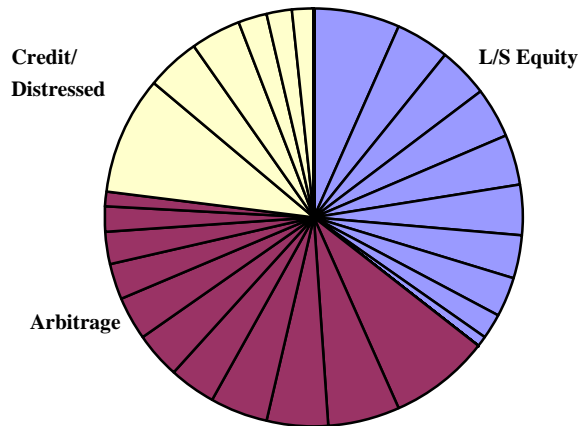
Absolute Return Portfolio Summary

<u>Advisor/Fund Name</u>	<u>Net Market Value</u>
Aetos - Sand Hill, LLC	\$987,781,597
Blackstone - Tahquamenon	200,000,000
Stone Tower Credit Strategies Fund	101,940,953
FrontPoint Michigan Strategic Partnership Fund	79,029,619
PSAM - Spartan Fund	<u>27,099,593</u>
Total Market Value	<u><u>\$1,395,851,762</u></u>

ABSOLUTE AND REAL RETURN

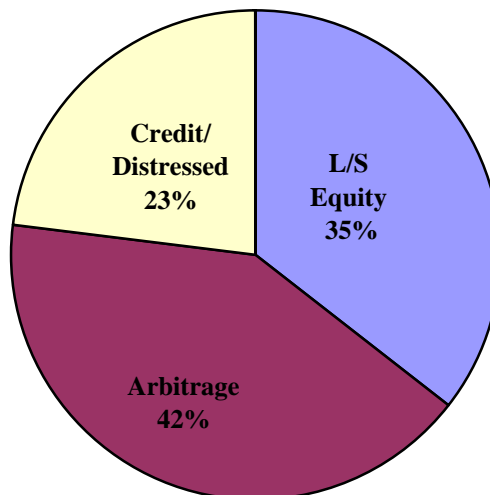
As of September 30, 2011

Absolute Return - Investments By Manager



Underlying Managers:	26	Median Position Size:	2.2%
Strategies:	3	Average Position Size:	2.4%
Relationships:	4	Largest Position Size:	9.3%

Absolute Return - Investments By Strategy

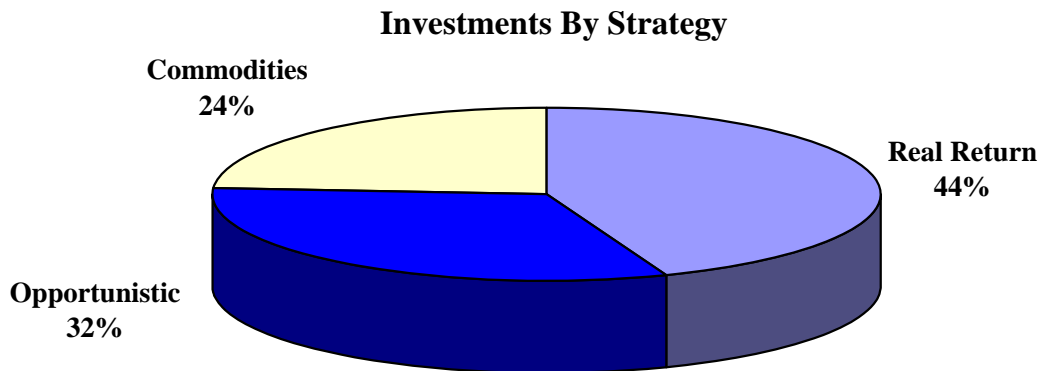


ABSOLUTE AND REAL RETURN

As of September 30, 2011

Real Return & Opportunistic Portfolio Summary

<u>Advisor/Fund Name</u>	<u>Net Market Value</u>	<u>Unfunded Commitment</u>
Barclay's Enhanced Passive Commodities	\$337,033,447	
Stone Tower Capital Credit Fund	256,326,619	
Social Network Holdings, LLC	213,578,284	
SJC Direct Lending Fund	178,960,765	70,039,235
Special Situations Fund I	150,273,199	
HPS Senior Loan Fund II	105,792,717	94,207,283
Galaxie Ave., LLC	102,074,837	
Fairfield Settlement Partners, LLC	77,559,560	47,440,440
Lakewater, LLC	70,553,636	79,446,364
Abernathy Fund I, LLC	53,542,534	181,457,466
JP Morgan Global Maritime Fund	8,824,472	116,175,528
Total Market Value	<u>\$1,554,520,070</u>	<u>\$588,766,316</u>



**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

**ACTIVE DOMESTIC EQUITY
REVIEW**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Jack A. Behar, CFA, Administrator
Stock Analysis Division**

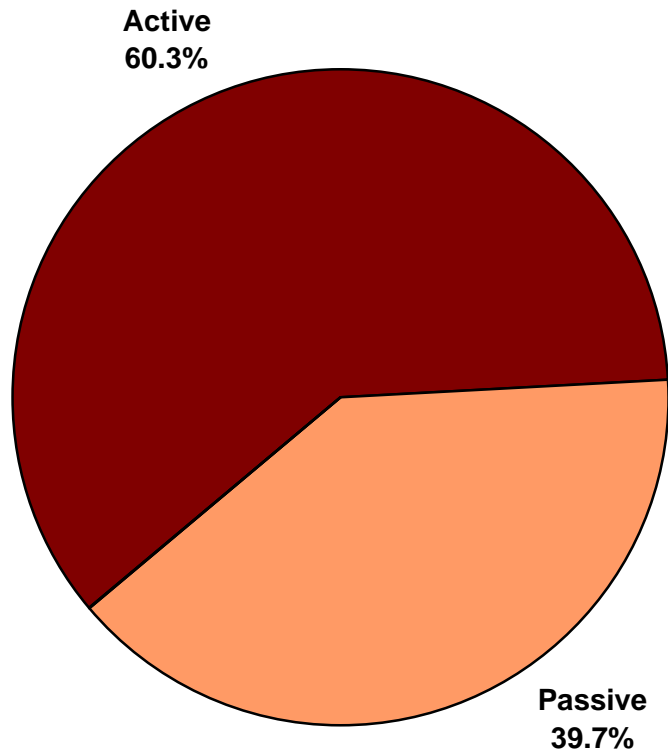
EXECUTIVE SUMMARY

- Despite significant risks to the economic environment, equity markets look attractively priced, with the S&P 500 poised to return roughly 10% over the long term versus 30 year treasuries at 2.9%.
 - S&P 500 expected return composed of a 4.7% normalized dividend yield (including stock buybacks) and 5.5% long-term growth in book value.
- Within equities, large cap stocks continue to look attractive relative to small-cap, particularly on a risk-adjusted basis, although less so than previously.
 - As of 9/30/2011, the normalized PE for the S&P 500 was estimated to be roughly 13X versus the S&P 600 at 17X.
 - Last quarter, such multiples were 15.5X and 22X respectively.
- SMRS Large-Cap Growth and SMRS Large-Cap Value are outperforming their benchmarks on an inception to date basis by 43 basis points (bp) and 5 bp respectively. The SMRS Large-Cap Core fund has struggled during the past year, and is now underperforming the S&P 500 by 55 bp on an inception to date basis.
 - At this stage, internally managed large-cap performance compares favorably with externally managed large cap performance.
 - Internally managed funds learning from both positive and negative experiences.
 - Not looking to make significant changes to externally managed portfolio.
- Composite internal portfolios delivering significantly higher normalized levels of both dividend yield (close to 6%) and earnings yield (9.2%) than the S&P 500, with slightly less favorable growth prospects and similar risk.



SMRS

Domestic Equity Holdings By Category 9/30/11

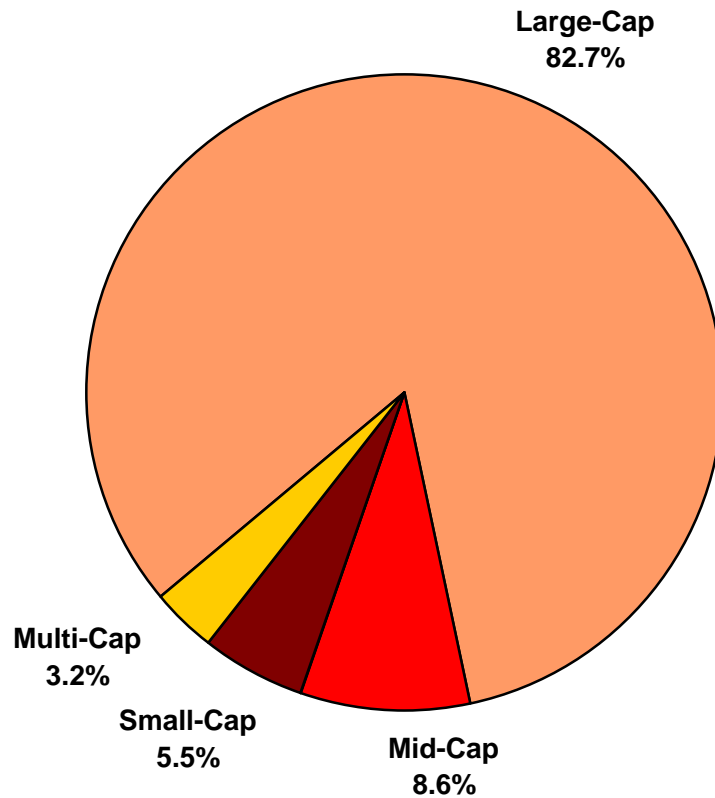


Market Value in Millions				
	9/30/2011		6/30/2011	
Active	\$8,110	60.3%	\$11,863	66.0%
Passive	5,336	39.7%	6,108	34.0%
Total Domestic Equity	\$13,446	100.0%	\$17,971	100.0%



SMRS

Domestic Equity Holdings By Category 9/30/11



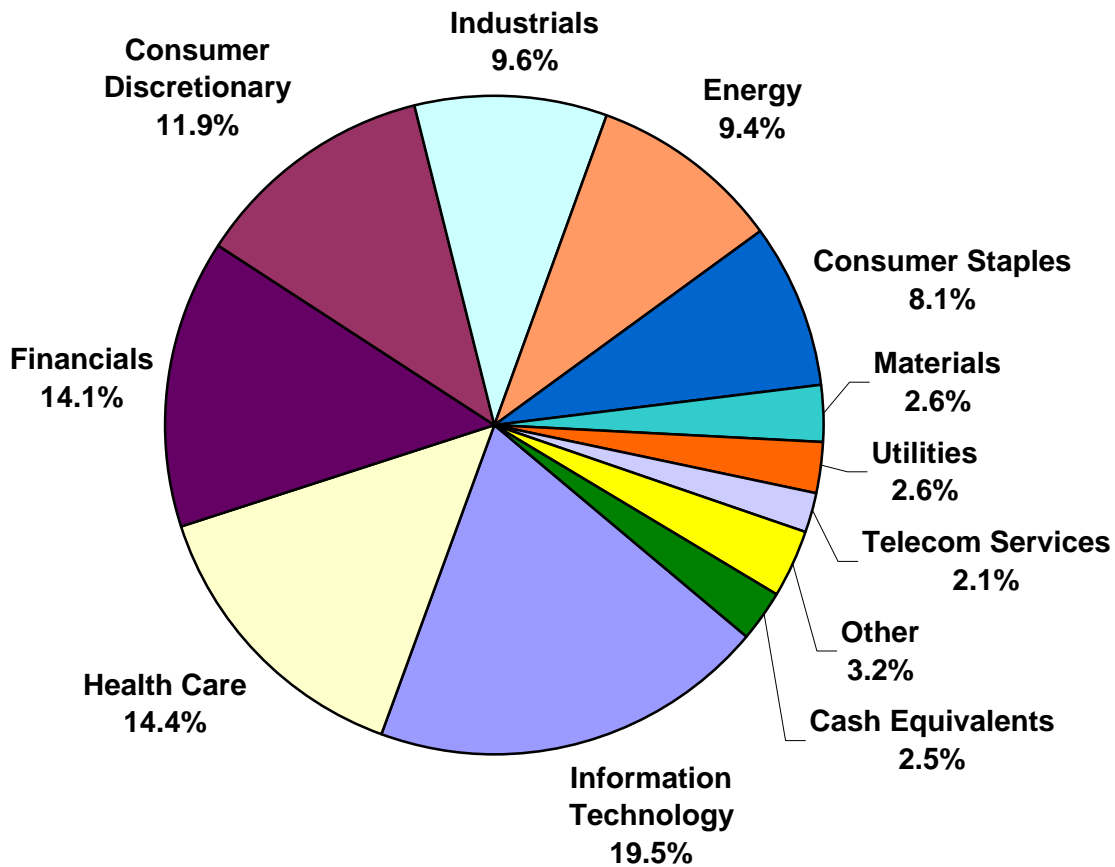
Market Value in Millions				
	9/30/2011		6/30/2011	
Large-Cap	\$11,118	82.7%	\$14,869	82.7%
Mid-Cap	1,158	8.6%	1,804	10.0%
Small-Cap	739	5.5%	961	5.4%
Multi-Cap	431	3.2%	337	1.9%
Total Domestic Equity	\$13,446	100.0%	\$17,971	100.0%



SMRS

All Domestic Equity Holdings By Category

9/30/2011



	Market Value in Millions			
	9/30/2011		6/30/2011	
Information Technology	\$2,626	19.5%	\$3,770	21.0%
Health Care	1,940	14.4%	2,823	15.7%
Financials	1,888	14.1%	2,719	15.1%
Consumer Discretionary	1,600	11.9%	2,086	11.6%
Industrials	1,291	9.6%	1,759	9.8%
Energy	1,269	9.4%	1,744	9.7%
Consumer Staples	1,090	8.1%	1,184	6.6%
Materials	348	2.6%	514	2.8%
Utilities	342	2.6%	391	2.2%
Telecom Services	281	2.1%	357	2.0%
Other	433	3.2%	179	1.0%
Total Investments	\$13,108	97.5%	\$17,526	97.5%
Cash Equivalents	338	2.5%	445	2.5%
Total	\$13,446	100.0%	\$17,971	100.0%

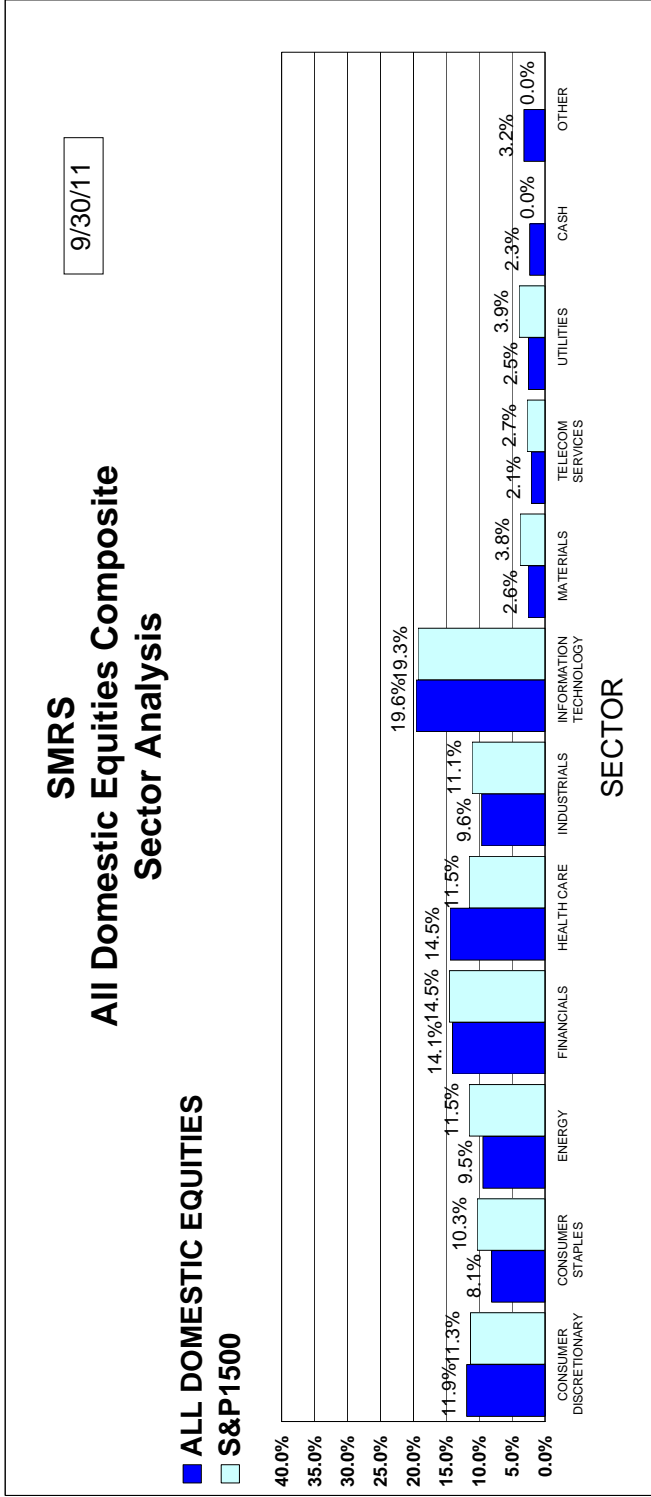
ALL DOMESTIC EQUITIES COMPOSITE

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$13,446	\$17,971	\$18,048	\$17,569
Number of Securities:	1,402	1,436	1,413	1,435
Benchmark:	S&P 1500			
Description:	The Actively Managed Composite is designed to add consistent alpha by investing in managers with value-added, but diverse strategies. While the expectation is that most will outperform over time, the composite is designed such that they do so during differing parts of the business cycle.			

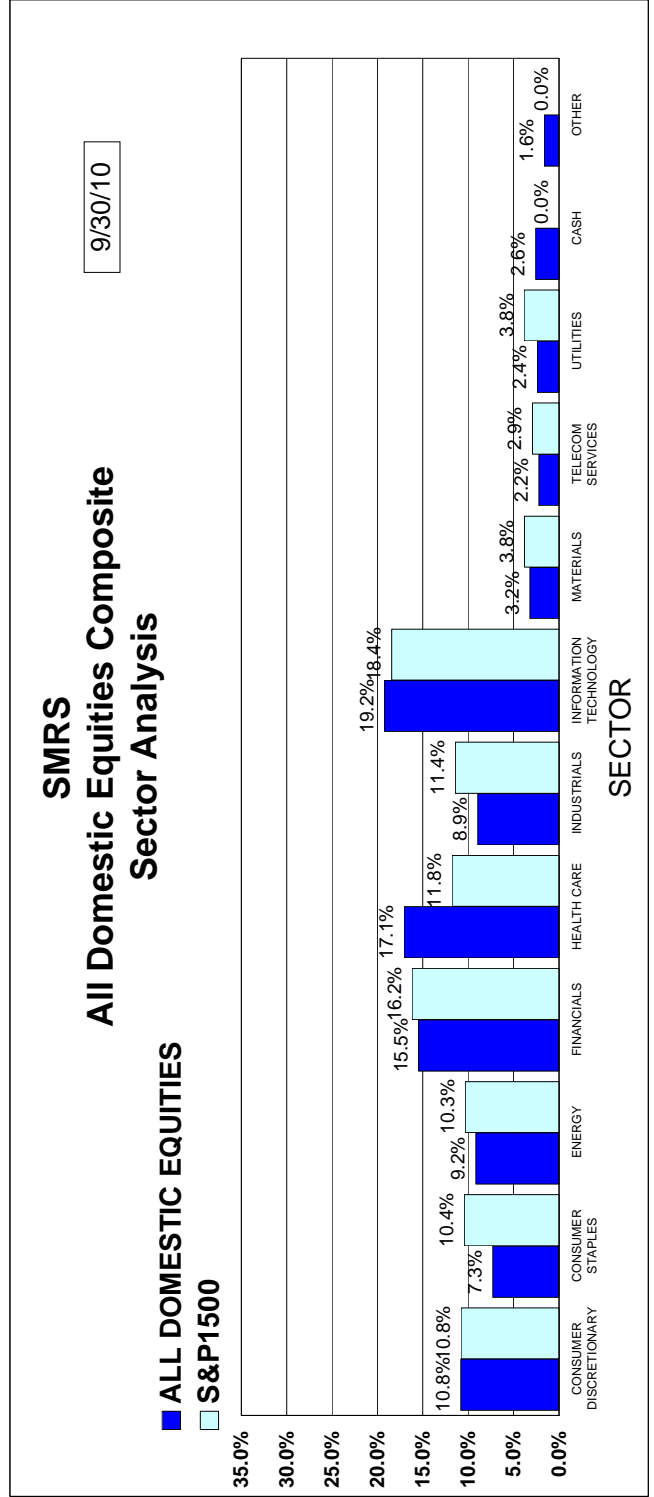
Characteristics:	<u>SMRS</u>	<u>S&P 1500</u>
Weighted Average Capitalization (\$billion):	\$66.9	\$77.0
Trailing 12-month P/E:	12.4x	12.7x
Forecast P/E:	11.3x	11.7x
Price/Book:	1.7x	1.8x
Beta:	1.01	1.01
Dividend Yield:	2.1%	2.3%
3-5 Year EPS Growth Estimate:	11.6%	11.0%
Return on Equity:	20.1%	20.9%

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Apple Inc.	2.97%	1,046,254	\$381.32	18.22%	\$398,957,575
Google Inc. Cl A	1.98%	515,357	\$515.04	-13.29%	\$265,429,469
Johnson & Johnson	1.84%	3,874,989	\$63.69	5.74%	\$246,798,049
Exxon Mobil Corp.	1.52%	2,810,771	\$72.63	1.13%	\$204,146,298
Abbott Laboratories	1.38%	3,622,152	\$51.14	9.74%	\$185,236,853
Merck & Co. Inc.	1.36%	5,602,161	\$32.70	-6.12%	\$183,190,665
Microsoft Corp.	1.36%	7,352,997	\$24.89	-9.14%	\$183,016,095
Pfizer Inc.	1.28%	9,747,990	\$17.68	4.17%	\$172,344,463
Amgen Inc.	1.23%	3,005,431	\$54.96	0.66%	\$165,178,488
Oracle Corp.	<u>1.07%</u>	5,002,383	\$28.74	-7.70%	<u>\$143,768,487</u>
TOTAL	<u>16.01%</u>				<u>\$2,148,066,443</u>

09/30/11
 \$13,446.00
 (\$ MILLION)



09/30/10
 \$16,904.98
 (\$ MILLION)

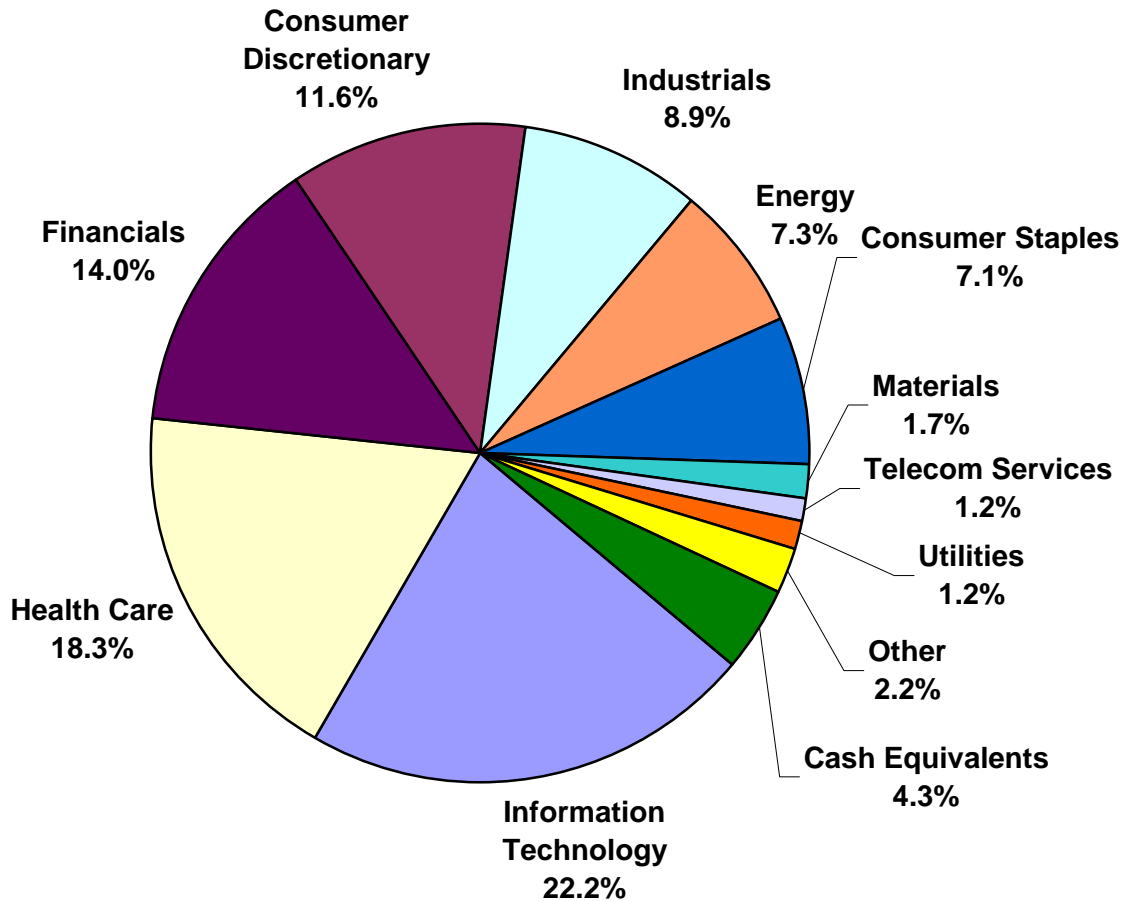




SMRS

All Active Domestic Equity Holdings By Category

9/30/2011



	Market Value in Millions			
	9/30/2011		6/30/2011	
Information Technology	\$1,803	22.2%	\$2,799	23.6%
Health Care	1,485	18.3%	2,146	18.1%
Financials	1,137	14.0%	1,828	15.4%
Consumer Discretionary	941	11.6%	1,449	12.2%
Industrials	720	8.9%	1,059	8.9%
Energy	588	7.3%	986	8.3%
Consumer Staples	574	7.1%	579	4.9%
Materials	140	1.7%	260	2.2%
Telecom Services	99	1.2%	135	1.1%
Utilities	99	1.2%	119	1.0%
Other	176	2.2%	43	0.4%
Total Investments	\$7,762	95.7%	\$11,403	96.1%
Cash Equivalents	348	4.3%	460	3.9%
Total	\$8,110	100.0%	\$11,863	100.0%

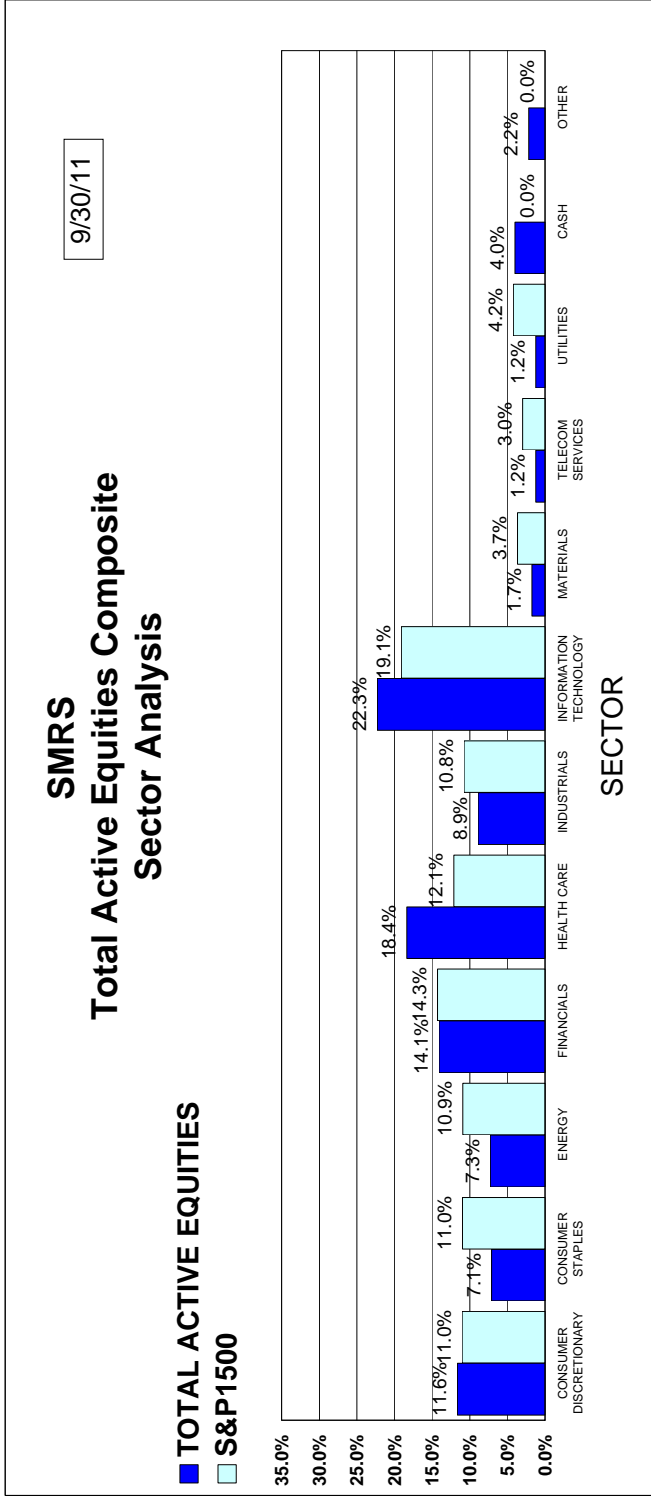
ALL ACTIVELY MANAGED COMPOSITE

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$8,110	\$11,863	\$11,944	\$11,615
Number of Securities:	1,059	1,107	1,128	1,145
Benchmark:	S&P 1500			
Description:	The Actively Managed Composite is designed to add consistent alpha by investing in managers with value-added, but diverse strategies. While the expectation is that most will outperform over time, the composite is designed such that they do so during differing parts of the business cycle.			

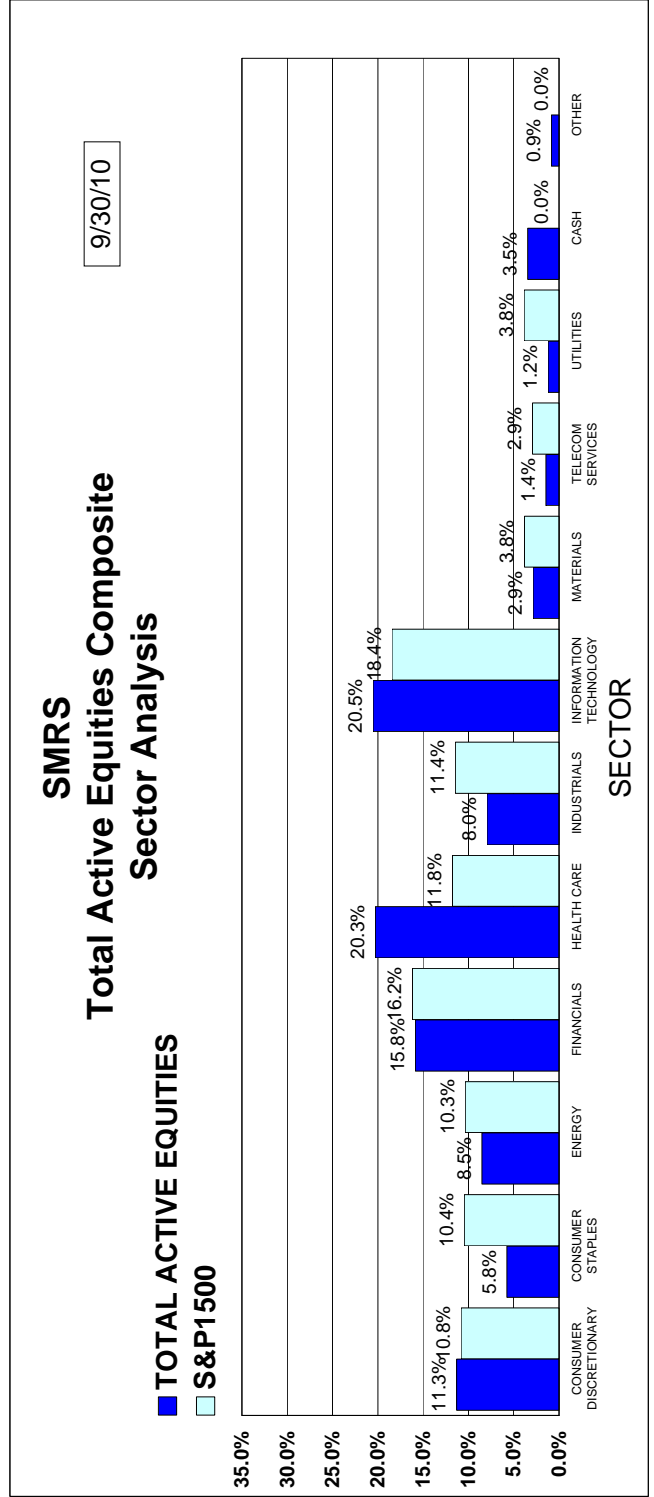
Characteristics:	<u>SMRS</u>	<u>S&P 1500</u>
Weighted Average Capitalization (\$billion):	\$58.8	\$77.0
Trailing 12-month P/E:	12.0x	12.7x
Forecast P/E:	11.0x	11.7x
Price/Book:	1.6x	1.8x
Beta:	1.04	1.01
Dividend Yield:	1.8%	2.3%
3-5 Year EPS Growth Estimate:	12.2%	11.0%
Return on Equity:	19.3%	20.9%

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Apple Inc.	2.79%	630,057	\$381.32	18.22%	\$240,253,335
Google Inc. Cl A	2.40%	402,253	\$515.04	-13.29%	\$207,176,385
Johnson & Johnson	1.95%	2,644,743	\$63.69	5.74%	\$168,443,682
Abbott Laboratories	1.67%	2,815,327	\$51.14	9.74%	\$143,975,823
Amgen Inc.	1.65%	2,590,547	\$54.96	0.66%	\$142,376,463
Merck & Co. Inc.	1.50%	3,950,122	\$32.70	-6.12%	\$129,168,989
Hewlett-Packard Co.	1.42%	5,463,453	\$22.45	-46.10%	\$122,654,520
Pfizer Inc.	1.19%	5,814,610	\$17.68	4.17%	\$102,802,305
Microsoft Corp.	1.16%	4,005,566	\$24.89	-9.14%	\$99,698,538
PepsiCo Inc.	<u>1.11%</u>	1,550,315	\$61.90	-3.06%	<u>\$95,964,499</u>
TOTAL	<u>16.85%</u>				<u>\$1,452,514,538</u>

09/30/11
 \$8,110.00
 (\$ MILLION)



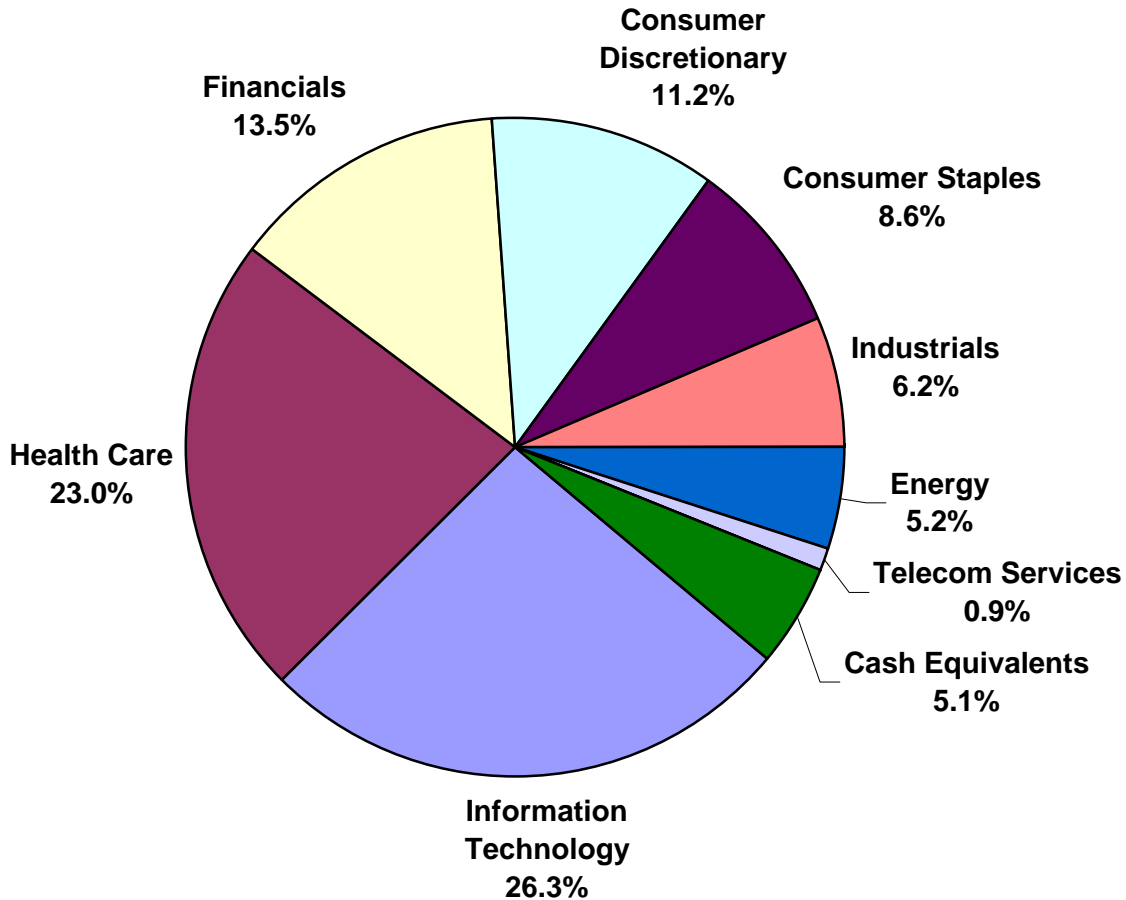
09/30/10
 \$11,030.38
 (\$ MILLION)





SMRS

Domestic Active Equity - Large-Cap All Internal Domestic Equity Holdings By Category 9/30/11



	Market Value in Millions			
	9/30/2011		6/30/2011	
Information Technology	\$1,173	26.3%	\$1,947	26.9%
Health Care	1,026	23.0%	1,600	22.1%
Financials	603	13.5%	1,172	16.2%
Consumer Discretionary	502	11.2%	873	12.1%
Consumer Staples	385	8.6%	346	4.8%
Industrials	278	6.2%	430	5.9%
Energy	234	5.2%	478	6.6%
Telecom Services	40	0.9%	69	0.9%
Utilities	0	0.0%	0	0.0%
Materials	0	0.0%	0	0.0%
Other	0	0.0%	0	0.0%
Total Investments	\$4,241	94.9%	\$6,915	95.5%
Cash Equivalents	226	5.1%	323	4.5%
Total	\$4,467	100.0%	\$7,238	100.0%

SMRS LARGE-CAP INTERNAL ACTIVE COMPOSITE

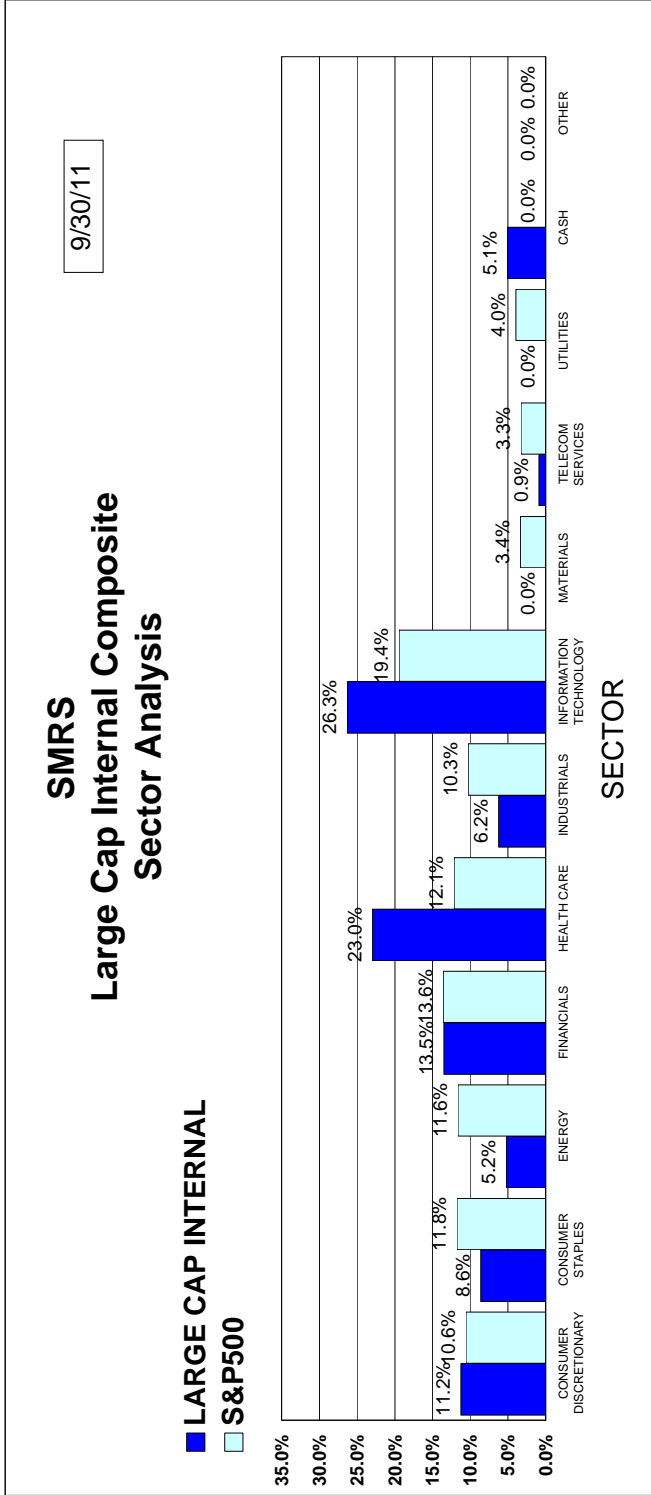
Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$4,467	\$7,238	\$7,331	\$7,042
Number of Securities:	90	93	94	93
Benchmark:	S&P 500			
Description:	The Large-Cap Internal Active portfolio represents a composite of the division's internally managed active portfolios. This currently includes Large-Cap Core, Large-Cap Growth, Large-Cap Value and Large-Cap Dividend Growth.			

Characteristics:	<u>SMRS</u>	<u>S&P 500</u>
Weighted Average Capitalization (\$billion):	\$78.1	\$86.8
Trailing 12-month P/E:	12.3x	12.5x
Forecast P/E:	10.7x	11.4x
Price/Book:	1.5x	1.8x
Beta:	0.98	1.00
Dividend Yield:	1.8%	2.4%
3-5 Year EPS Growth Estimate:	11.7%	10.8%
Return on Equity:	21.2%	21.8%

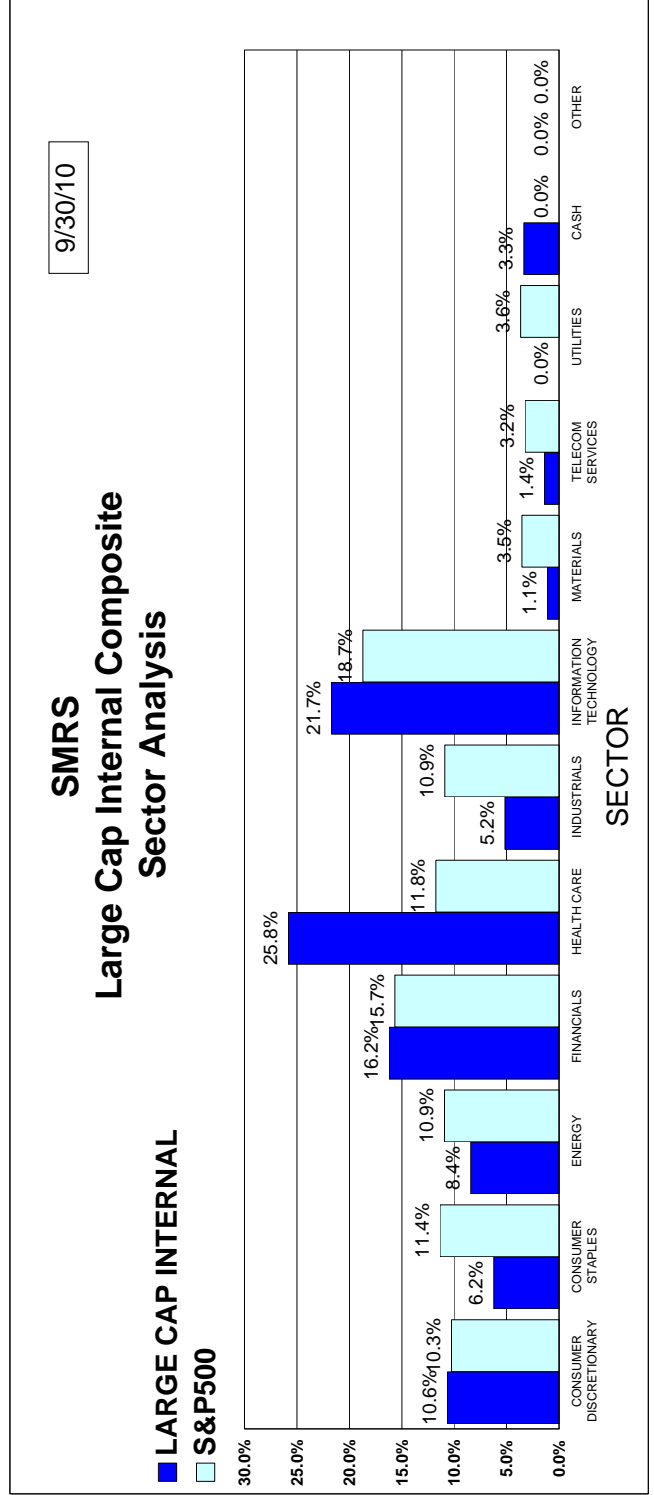
**TOP TEN HOLDINGS - Large-Cap Internal Active
9/30/2011**

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Apple Inc.	4.75%	555,973	\$381.32	18.22%	\$212,003,624
Google Inc. Cl A	4.08%	354,268	\$515.04	-13.29%	\$182,462,191
Johnson & Johnson	3.44%	2,413,380	\$63.69	5.74%	\$153,708,172
Amgen Inc.	2.90%	2,353,928	\$54.96	0.66%	\$129,371,883
Abbott Laboratories	2.81%	2,457,207	\$51.14	9.74%	\$125,661,566
Hewlett-Packard Co.	2.64%	5,250,123	\$22.45	-46.10%	\$117,865,261
Merck & Co. Inc.	2.46%	3,356,992	\$32.70	-6.12%	\$109,773,638
PepsiCo Inc.	1.92%	1,382,965	\$61.90	-3.06%	\$85,605,534
Morgan Stanley	1.87%	6,182,072	\$13.51	-50.06%	\$83,519,793
Roche Holding AG ADS	<u>1.82%</u>	2,012,530	\$40.49	13.64%	<u>\$81,483,315</u>
TOTAL	<u>28.69%</u>				<u>\$1,281,454,977</u>

09/30/11
 \$4,466.77
 (\$ MILLION)



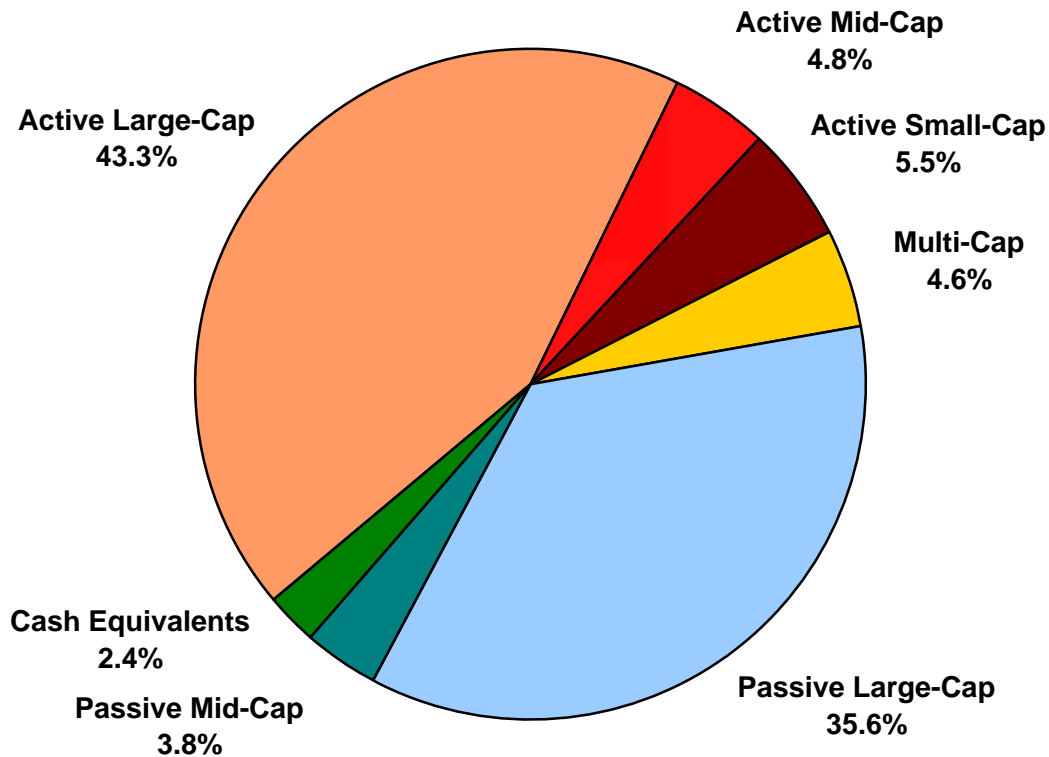
09/30/10
 \$6,682.19
 (\$ MILLION)





SMRS

Domestic Equity Holdings By Category 9/30/11



		Market Value in Millions			
		9/30/2011		6/30/2011	
Active					
Large-Cap		\$5,828	43.3%	\$9,125	50.8%
Mid-Cap		650	4.8%	1,000	5.6%
Small-Cap		739	5.5%	961	5.3%
Multi-Cap		616	4.6%	466	2.6%
Total Active Equity		\$7,833	58.2%	\$11,552	64.3%
Passive					
Large-Cap		\$4,787	35.6%	\$5,419	30.2%
Mid-Cap		507	3.8%	671	3.7%
Total Passive Equity		\$5,294	39.4%	\$6,090	33.9%
Total Investments		\$13,127	97.6%	\$17,642	98.2%
Cash Equivalents		319	2.4%	329	1.8%
Total Domestic Equity		\$13,446	100.0%	\$17,971	100.0%

SMRS DOMESTIC EQUITIES

September 30, 2011

(in thousands)

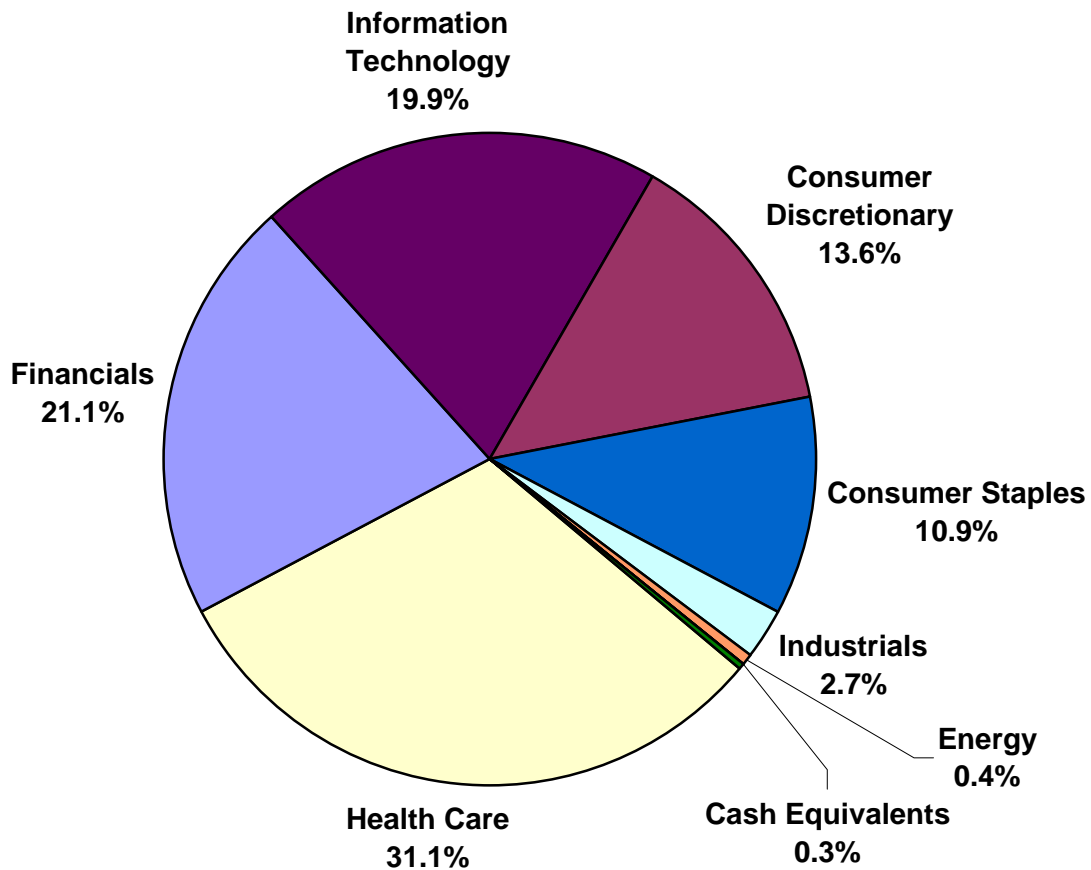
	INDEX	CORE	CONCENTRATED HIGH ALPHA	TOTAL	%	S&P 1500
Large-Cap						
Index S&P 500	\$4,827,783			\$4,827,783		
Large-Cap Core		\$1,823,739		1,823,739		
Large-Cap Growth			\$1,283,872	1,283,872		
Large-Cap Value			1,171,849	1,171,849		
Large-Cap Dividend Growth			187,311	187,311		
Edgewood Large-Cap Growth			564,409	564,409		
Aletheia Large-Cap Growth			148,193	148,193		
LSV Large-Cap Value			445,562	445,562		
Wasatch Advisors Large-Cap Value			208,468	208,468		
Epoch Large-Cap Value			206,458	206,458		
Diamond Hill Large-Cap Value			224,545	224,545		
Tactical Asset Allocation			25,132	25,132		
Mid-Cap						
S&P 400 Index	\$508,475			\$508,475		
Artisan Mid-Cap Value			\$170,142	170,142		
Champlain Mid-Cap Core		\$63,277		63,277		
Cramer Rosenthal McGlynn Mid-Cap Value			75,913	75,913		
Los Angeles Capital Mid-Cap Plus Core		56,766		56,766		
Munder Mid-Cap Core Growth		106,510		106,510		
Rainier Mid-Cap Growth		91,036		91,036		
Seizert Capital Partners Mid-Cap Core		103,727		103,727		
Wellington Management Mid-Cap Growth			86,137	86,137		
Small-Cap						
Champlain Small-Cap Core			\$88,993	88,993		
Donald Smith Small-Cap Value			137,465	137,465		
Fisher Small-Cap Value		\$185,539		185,539		
GW Capital Small-Cap Value			55,762	55,762		
Northpointe Small-Cap Value		66,766		66,766		
Opus Small-Cap Value			47,682	47,682		
Pier Small-Cap Growth			157,346	157,346		
Manager of Managers						
Attucks Asset Management				\$149,847		
Bivium Capital Partners				136,572		
Leading Edge Investment Advisors				41,023		
TOTAL	\$5,336,258	\$2,497,360	\$5,285,239	\$13,446,299	84.7%	88.4%
					5.6%	3.8%
					100.0%	100.0%



SMRS

Domestic Active Equity - Large-Cap Core Equity Holdings By Category

9/30/11



	Market Value in Millions		Market Value in Millions	
	9/30/2011		6/30/2011	
Health Care	\$568	31.1%	\$866	28.0%
Financials	385	21.1%	711	23.0%
Information Technology	363	19.9%	797	25.7%
Consumer Discretionary	247	13.6%	463	15.0%
Consumer Staples	199	10.9%	115	3.7%
Industrials	49	2.7%	112	3.6%
Energy	7	0.4%	22	0.7%
Telecom Services	0	0.0%	0	0.0%
Utilities	0	0.0%	0	0.0%
Materials	0	0.0%	0	0.0%
Other	0	0.0%	0	0.0%
Total Investments	\$1,818	99.7%	\$3,086	99.7%
Cash Equivalents	6	0.3%	8	0.3%
Total	\$1,824	100.0%	\$3,094	100.0%

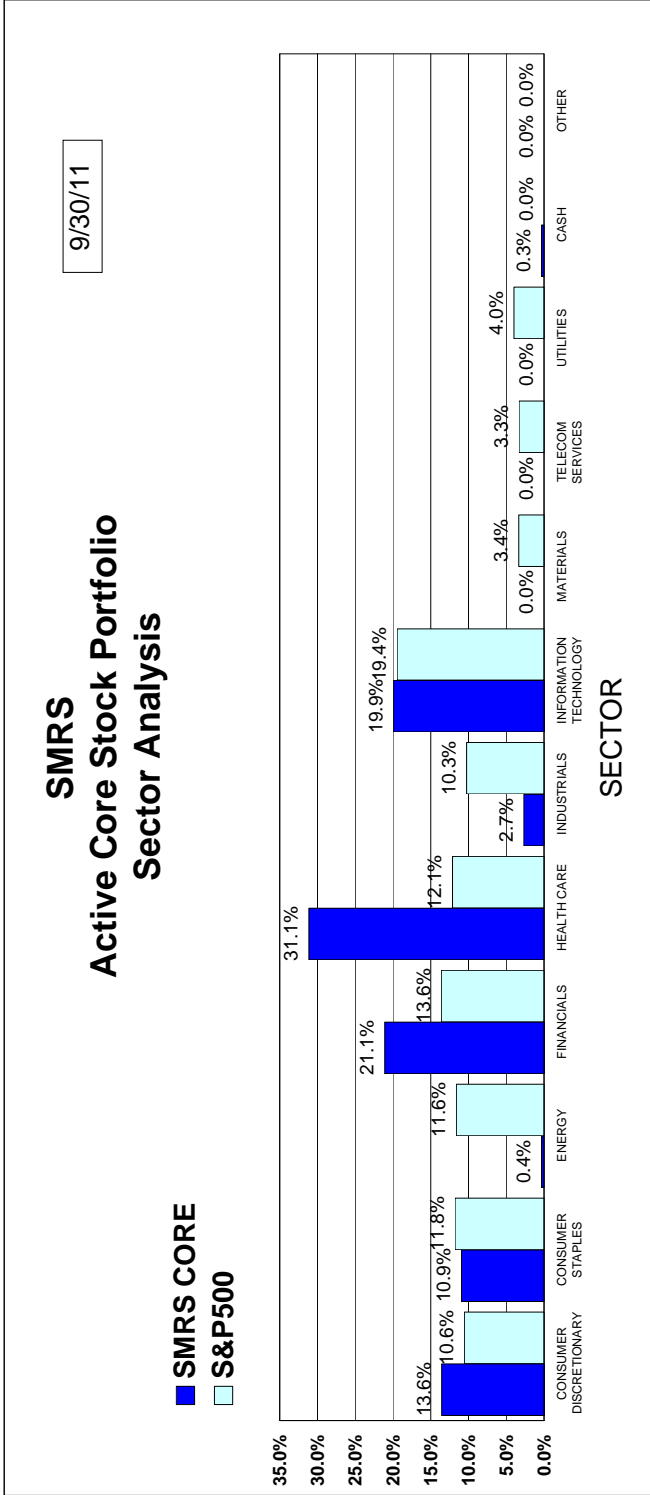
SMRS LARGE-CAP CORE PORTFOLIO

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$1,824	\$3,094	\$3,209	\$3,082
Number of Securities:	36	37	36	37
Benchmark:	S&P 500			
Description:	The Large-Cap Core portfolio looks to add alpha by constructing a portfolio of stocks with attractive risk adjusted returns. Portfolio allocations are the result of security analysis and a risk controlled portfolio construction discipline.			

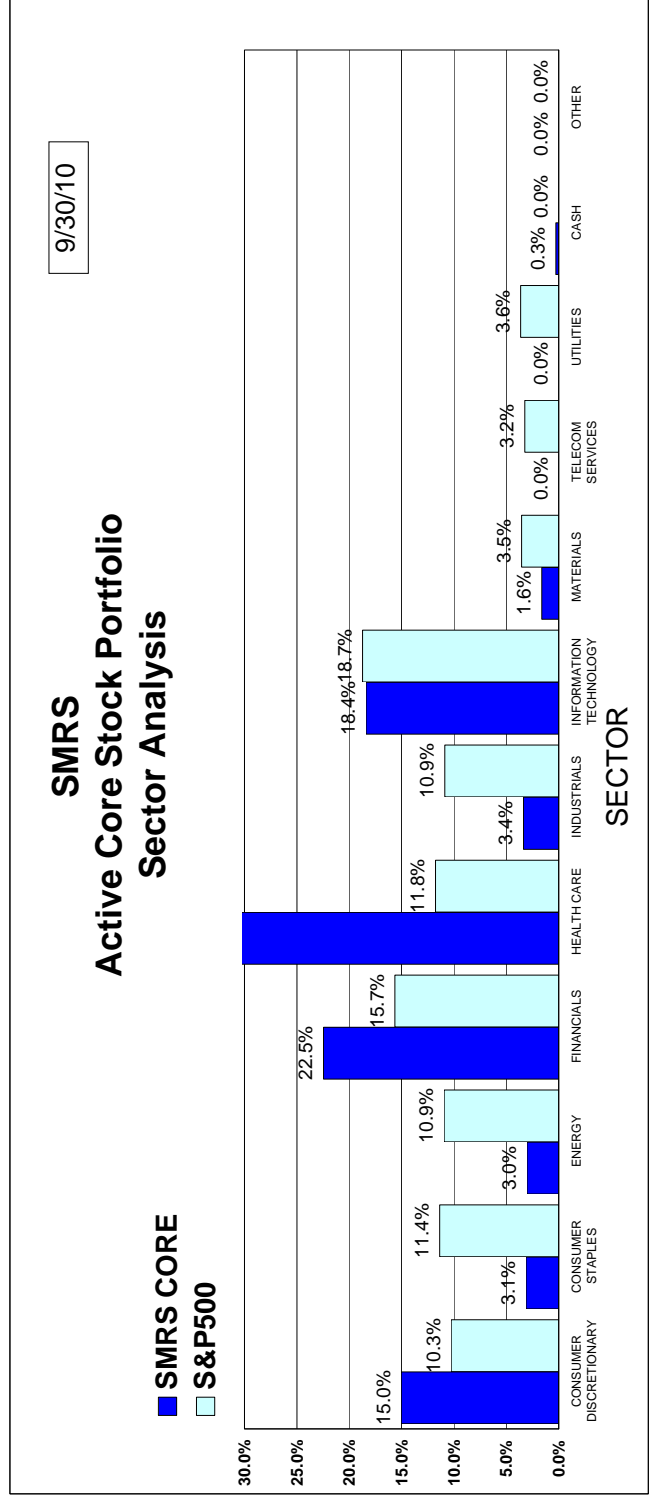
Characteristics:	<u>SMRS</u>	<u>S&P 500</u>
Weighted Average Capitalization (\$billion):	\$84.3	\$86.8
Trailing 12-month P/E:	12.3x	12.5x
Forecast P/E:	10.3x	11.4x
Price/Book:	1.3x	1.8x
Beta:	0.93	1.00
Dividend Yield:	2.1%	2.4%
3-5 Year EPS Growth Estimate:	10.5%	10.8%
Return on Equity:	21.0%	21.8%

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Apple Inc.	6.59%	315,373	\$381.32	18.22%	\$120,258,032
Johnson & Johnson	5.88%	1,684,576	\$63.69	5.74%	\$107,290,645
Google Inc. Cl A	5.83%	206,468	\$515.04	-13.29%	\$106,339,279
Abbott Laboratories	5.27%	1,878,851	\$51.14	9.74%	\$96,084,440
Merck & Co. Inc.	5.00%	2,788,162	\$32.70	-6.12%	\$91,172,897
Amgen Inc.	4.87%	1,615,900	\$54.96	0.66%	\$88,809,864
PepsiCo Inc.	4.69%	1,382,965	\$61.90	-3.06%	\$85,605,534
Roche Holding AG ADS	4.47%	2,012,530	\$40.49	13.64%	\$81,483,315
Citigroup Inc.	4.19%	2,980,119	\$25.62	-45.82%	\$76,335,748
Hewlett-Packard Co.	<u>4.17%</u>	3,386,275	\$22.45	-46.10%	<u>\$76,021,874</u>
TOTAL	<u>50.96%</u>				<u>\$929,401,628</u>

09/30/11
 \$1,823.74
 (\$ MILLION)



09/30/10
 \$2,948.59
 (\$ MILLION)

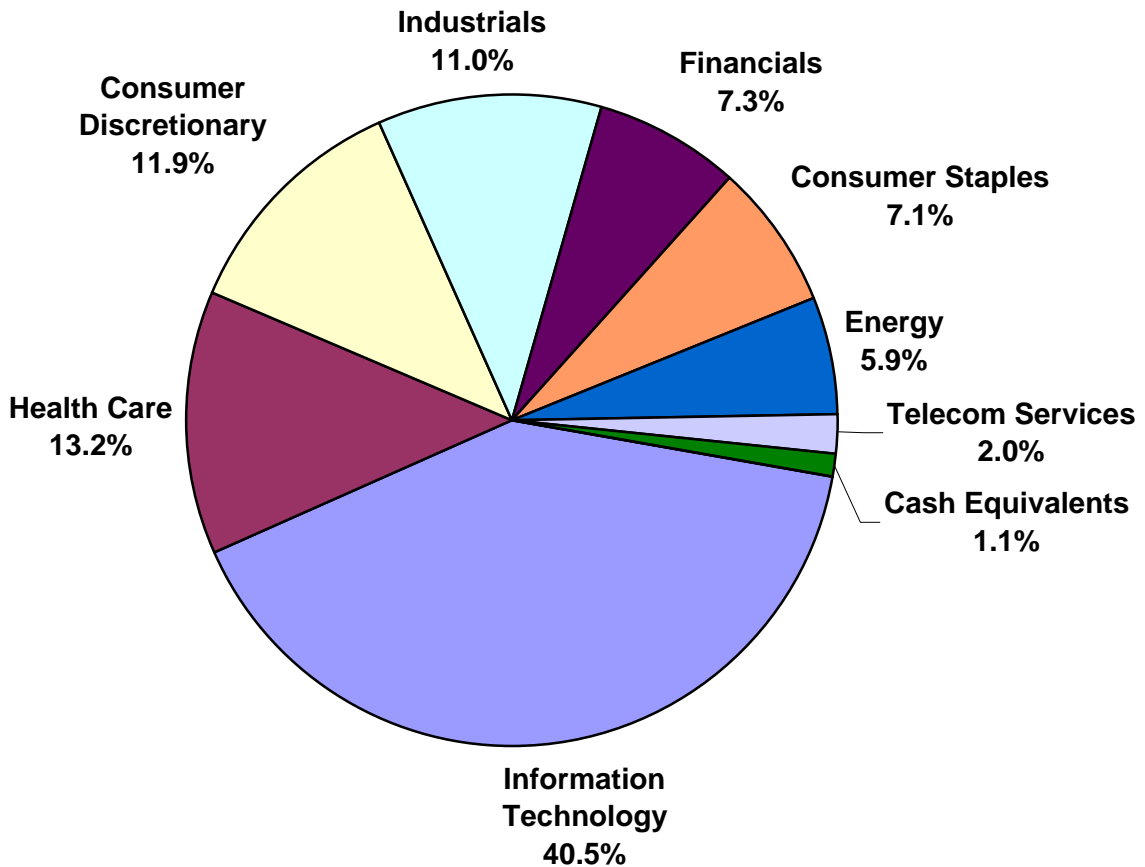




SMRS

Domestic Active Equity - Large-Cap Growth Holdings By Category

9/30/11



	Market Value in Millions			
	9/30/2011		6/30/2011	
Information Technology	\$520	40.5%	\$784	37.3%
Health Care	169	13.2%	256	12.2%
Consumer Discretionary	153	11.9%	287	13.7%
Industrials	141	11.0%	217	10.3%
Financials	94	7.3%	194	9.2%
Consumer Staples	91	7.1%	95	4.5%
Energy	76	5.9%	181	8.6%
Telecom Services	26	2.0%	47	2.2%
Materials	0	0.0%	0	0.0%
Utilities	0	0.0%	0	0.0%
Other	0	0.0%	0	0.0%
Total Investments	\$1,270	98.9%	\$2,061	98.0%
Cash Equivalents	14	1.1%	42	2.0%
Total	\$1,284	100.0%	\$2,103	100.0%

SMRS LARGE-CAP GROWTH PORTFOLIO

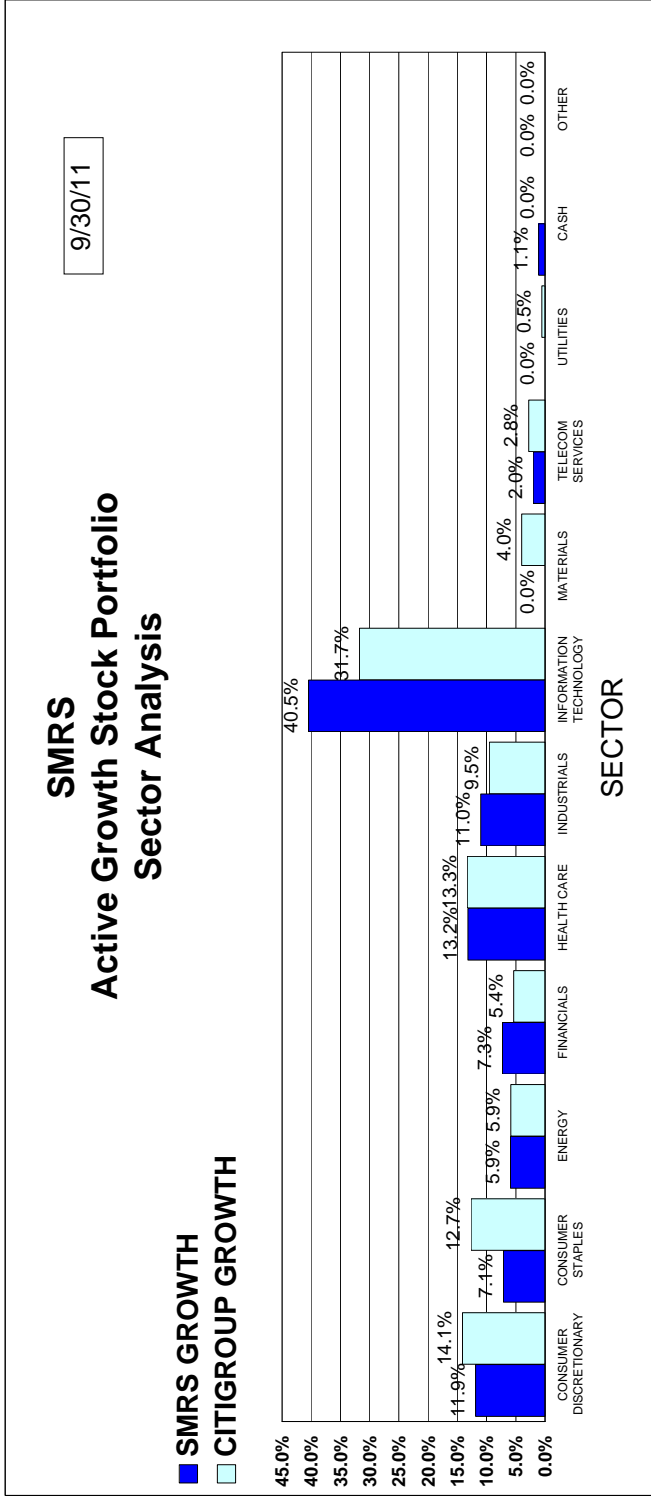
Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$1,284	\$2,103	\$2,106	\$2,111
Number of Securities:	36	43	45	44
Benchmark:	S&P 500/Citigroup Growth Index			
Description:	The Large-Cap Growth portfolio invests in companies that have above-average and sustainable growth in revenues, earnings, and cash flow; identifiable catalysts; and reasonable valuations relative to fundamentals. The portfolio seeks to minimize risk through diversification and an active risk management program.			

Characteristics:	<u>SMRS</u>	<u>S&P 500/Citi Growth</u>
Weighted Average Capitalization (\$billion):	\$79.3	\$87.7
Trailing 12-month P/E:	14.8x	14.2x
Forecast P/E:	13.3x	12.9x
Price/Book:	2.3x	2.8x
Beta:	1.05	1.00
Dividend Yield:	1.1%	2.0%
3-5 Year EPS Growth Estimate:	14.4%	12.4%
Return on Equity:	25.8%	27.1%

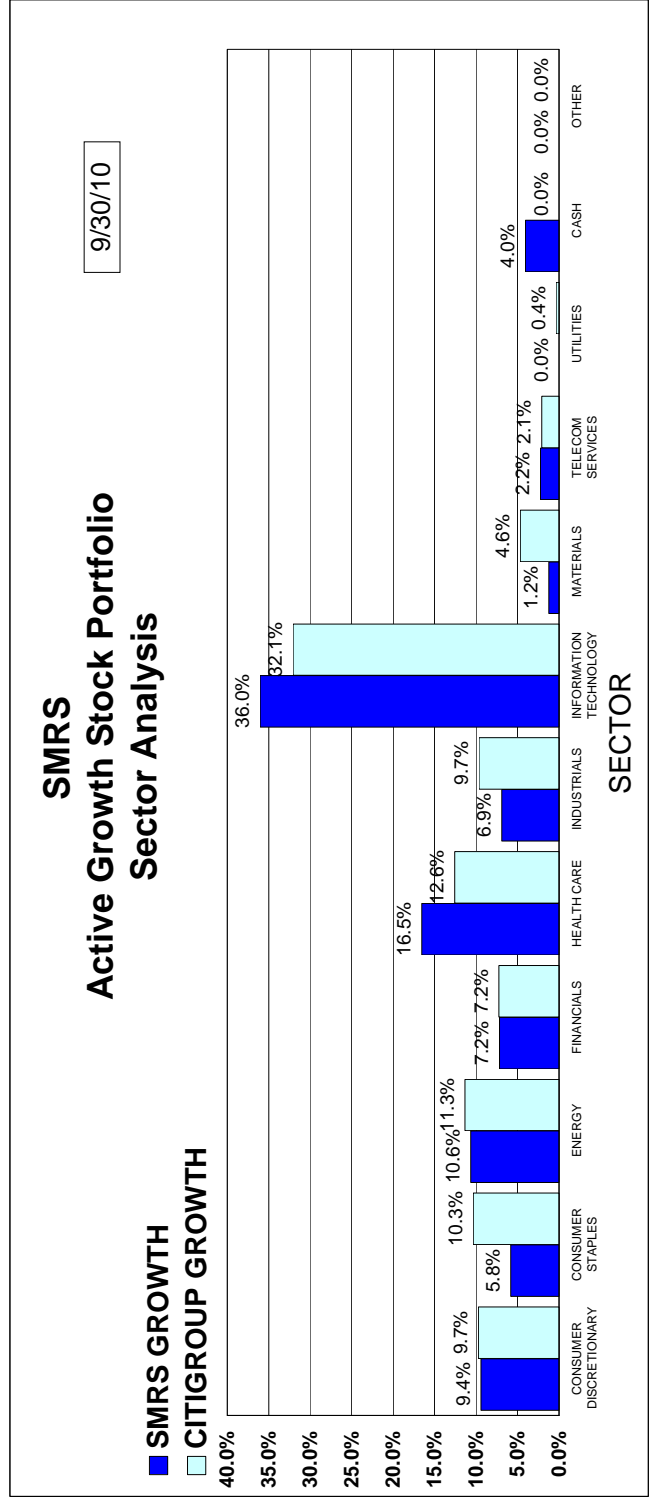
TOP TEN HOLDINGS - GROWTH 9/30/2011

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Apple Inc.	7.15%	240,600	\$381.32	18.22%	\$91,745,592
Google Inc. Cl A	5.93%	147,800	\$515.04	-13.29%	\$76,122,912
McDonald's Corp.	5.01%	732,000	\$87.82	16.99%	\$64,284,240
Allergan Inc.	4.08%	635,700	\$82.38	20.20%	\$52,368,966
Oracle Corp.	3.94%	1,761,900	\$28.74	-7.70%	\$50,637,006
Coca-Cola Co.	3.81%	724,200	\$67.56	4.92%	\$48,926,952
eBay Inc.	3.77%	1,639,800	\$29.49	5.96%	\$48,357,702
CME Group Inc. Cl A	3.48%	181,400	\$246.40	-22.27%	\$44,696,960
Celgene Corp.	3.23%	669,000	\$61.91	4.68%	\$41,417,790
Thermo Fisher Scientific Inc.	<u>3.19%</u>	809,000	\$50.64	-8.53%	<u>\$40,967,760</u>
TOTAL	<u>43.58%</u>				<u>\$559,525,880</u>

09/30/11
 \$1,283.87
 (\$ MILLION)



09/30/10
 \$1,905.02
 (\$ MILLION)

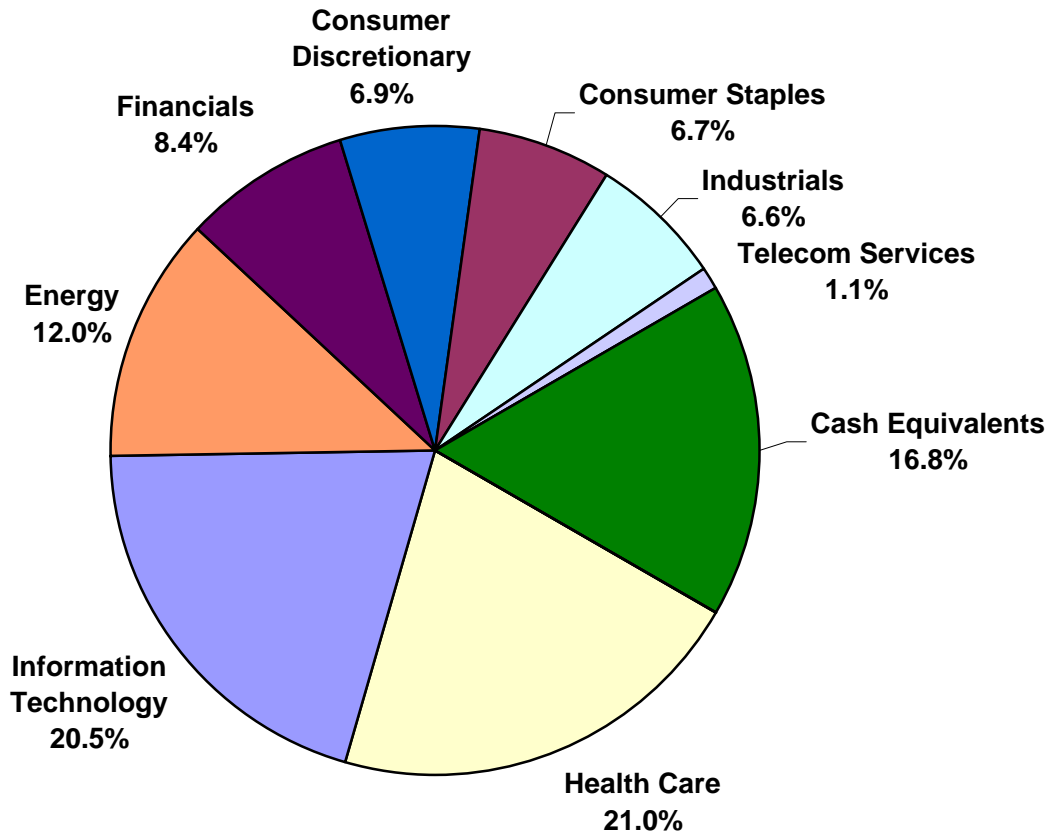




SMRS

Domestic Active Equity - Large-Cap Value Holdings By Category

9/30/11



	Market Value in Millions			
	9/30/2011		6/30/2011	
Health Care	\$246	21.0%	\$426	23.6%
Information Technology	240	20.5%	304	16.9%
Energy	141	12.0%	260	14.4%
Financials	99	8.4%	229	12.7%
Consumer Discretionary	81	6.9%	94	5.2%
Consumer Staples	78	6.7%	125	6.9%
Industrials	77	6.6%	86	4.7%
Telecom Services	13	1.1%	19	1.1%
Materials	0	0.0%	0	0.0%
Utilities	0	0.0%	0	0.0%
Other	0	0.0%	0	0.0%
Total Investments	\$975	83.2%	\$1,543	85.5%
Cash Equivalents	197	16.8%	262	14.5%
Total	\$1,172	100.0%	\$1,805	100.0%

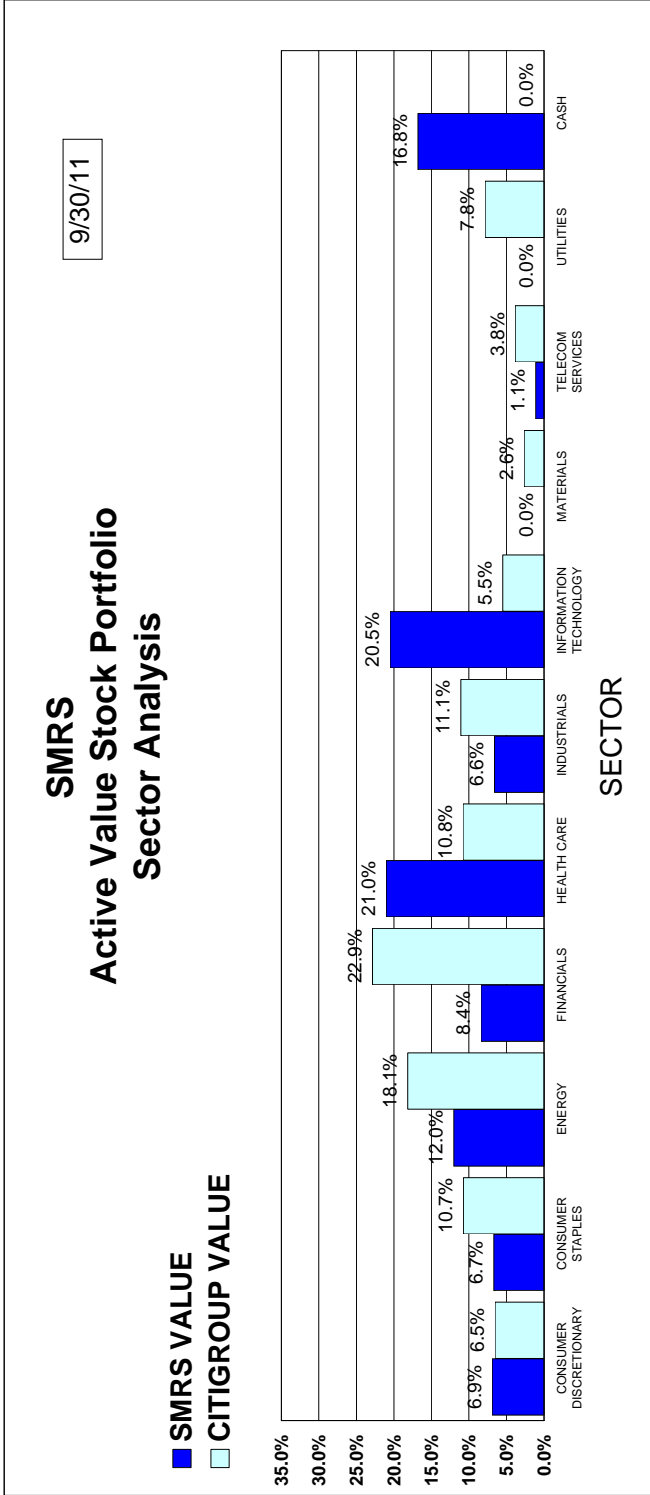
SMRS LARGE-CAP VALUE PORTFOLIO

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>
Assets (\$million):	\$1,172	\$1,805	\$1,867	\$1,759
Number of Securities:	35	38	39	40
Benchmark:	S&P 500/Citigroup Value Index			
Description:	Large-cap stocks selling at market prices that are significantly less than their underlying business value. Focus on companies with above average normalized returns on equity, strong balance sheets and business models with good long-term prospects.			

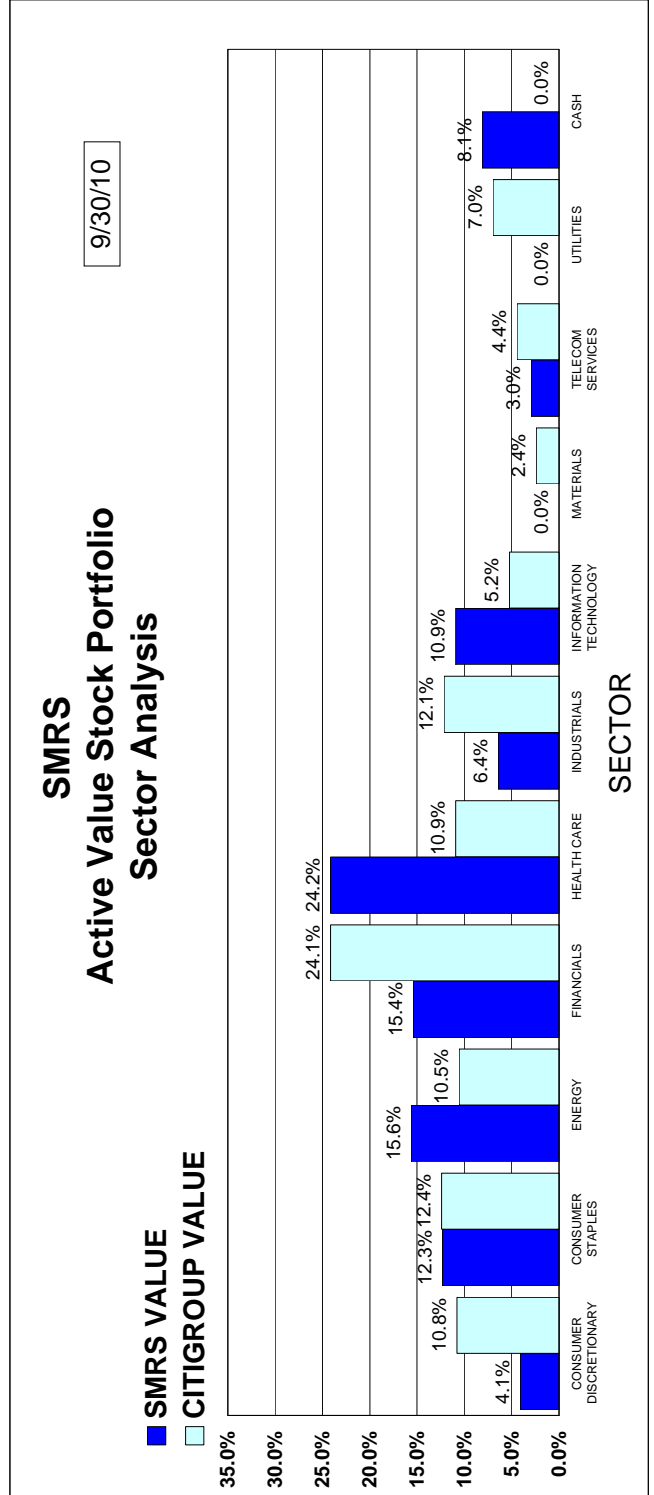
Characteristics:	<u>SMRS</u>	<u>S&P 500/Citi Value</u>
Weighted Average Capitalization (\$billion):	\$65.0	\$85.8
Trailing 12-month P/E:	10.5x	11.1x
Forecast P/E:	9.1x	10.1x
Price/Book:	1.4x	1.3x
Beta:	0.97	1.00
Dividend Yield:	2.4%	2.8%
3-5 Year EPS Growth Estimate:	10.5%	9.0%
Return on Equity:	16.8%	16.0%

	<u>Portfolio Weight</u>	<u>Total Shares</u>	<u>9/30/2011 Price</u>	<u>YTD11 Total Return</u>	<u>Market Value</u>
Microsoft Corp.	3.40%	2,490,635	\$24.89	-9.14%	\$61,991,905
Cisco Systems Inc.	3.01%	3,539,161	\$15.50	-22.82%	\$54,856,996
Johnson & Johnson	2.55%	728,804	\$63.69	5.74%	\$46,417,527
Arrow Electronics Inc.	2.52%	1,654,000	\$27.78	-18.89%	\$45,948,120
Kohl's Corp.	2.37%	880,764	\$49.10	-8.25%	\$43,245,512
Hewlett-Packard Co.	2.29%	1,863,848	\$22.45	-46.10%	\$41,843,388
Amgen Inc.	2.22%	738,028	\$54.96	0.66%	\$40,562,019
Wal-Mart Stores Inc.	2.16%	760,028	\$51.90	-1.72%	\$39,445,453
Lowe's Cos.	2.07%	1,948,417	\$19.34	-21.74%	\$37,682,385
UnitedHealth Group Inc.	<u>2.02%</u>	797,242	\$46.12	28.96%	<u>\$36,768,801</u>
TOTAL	<u>24.61%</u>				<u>\$448,762,105</u>

09/30/11
 \$1,171.85
 (\$ MILLION)



09/30/10
 \$1,622.07
 (\$ MILLION)



ACTIVE MID-CAP STOCK PORTFOLIO

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>	<u>Change</u>
Assets (\$million):	\$649.8	\$1,128.5	\$1,122.2	\$1,111.3	-\$478.7
Unique Securities:	522	554	555	569	
Benchmark:	S&P 400				
Description:	The Mid-Cap Composite is designed to add consistent alpha by investing in managers with value-added, but diverse strategies. While the expectation is that most will outperform over time, the composite is designed such that they enable the aggregate composite to do so during differing parts of the business cycle.				

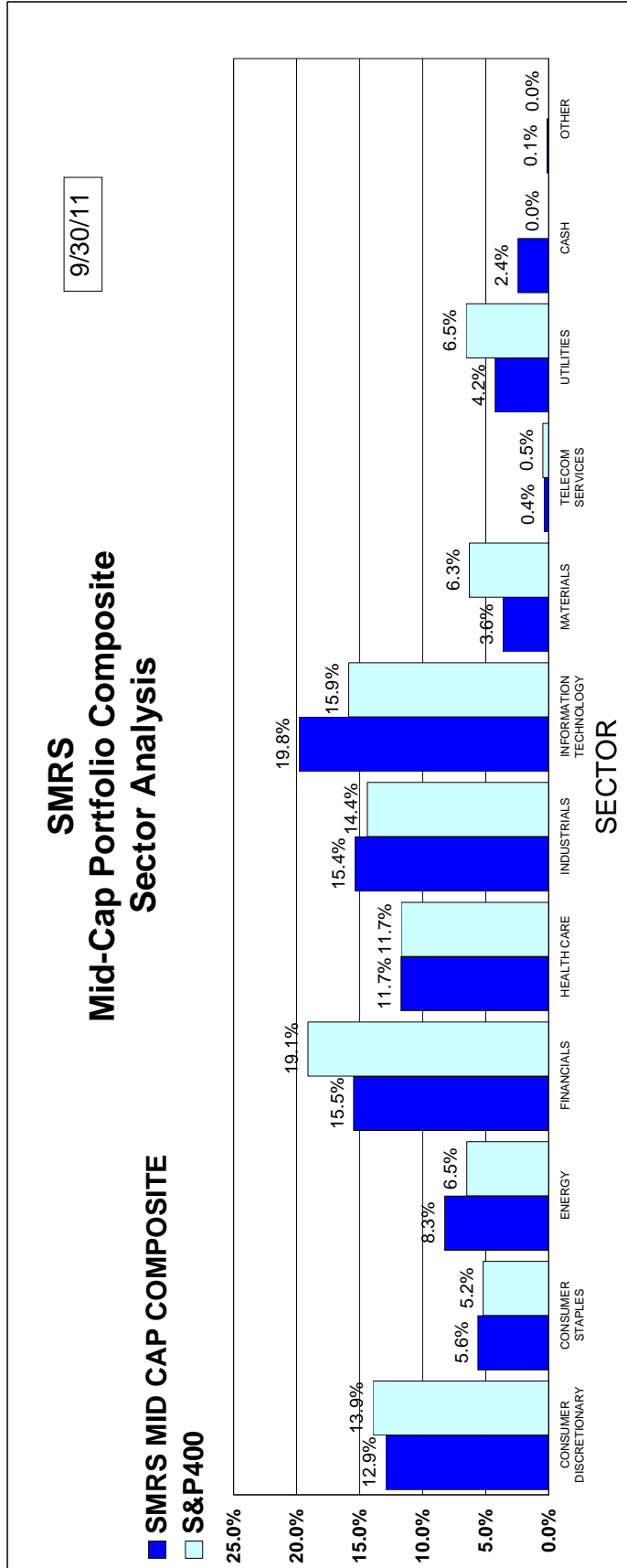
Characteristics:	<u>SMRS</u>	<u>S&P 400</u>
Weighted Average Capitalization (\$million):	\$13,017.7	\$3,348.0
Trailing 12-month P/E:	12.1x	14.8x
Forecast P/E:	11.6x	13.8x
Price/Book:	1.7x	1.7x
Beta:	1.13	1.18
Dividend Yield:	1.40%	1.62%
3-5 Year EPS Growth Estimate:	12.2%	12.6%
Return on Equity:	17.2%	14.7%

<u>Managers</u>	<u>9/30/2011</u>	<u>% of Total</u>
Artisan Mid-Cap Value	\$ 170,142,378	26.18%
Champlain Investment Partners Mid-Cap	\$ 63,276,556	9.74%
Cramer Rosenthal McGlynn Mid-Cap Value	\$ 75,912,804	11.68%
Los Angeles Capital Mid-Cap Plus Core	\$ 56,765,751	8.74%
Munder Mid-Cap Core	\$ 106,510,136	16.39%
Rainier Mid-Cap Growth	\$ 91,035,731	14.01%
Wellington Management Mid-Cap Growth	<u>\$ 86,136,859</u>	<u>13.26%</u>
	<u>\$ 649,780,214</u>	<u>100.00%</u>

9/30/2011

\$649.78

(\$ MILLION)



ACTIVE SMALL-CAP STOCK PORTFOLIO

Date:	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>3/31/2011</u>	<u>12/31/2010</u>	<u>Change</u>
Assets (\$million):	\$739.6	\$961.2	\$980.8	\$1,021.7	-\$221.6
Unique Securities:	433	438	437	438	
Benchmark:	S&P 600				
Description:	The Small-Cap Composite is designed to add consistent alpha by investing in managers with value-added, but diverse strategies. While the expectation is that most will outperform over time, the composite is designed such that they enable the aggregate composite to do so during differing parts of the business cycle.				

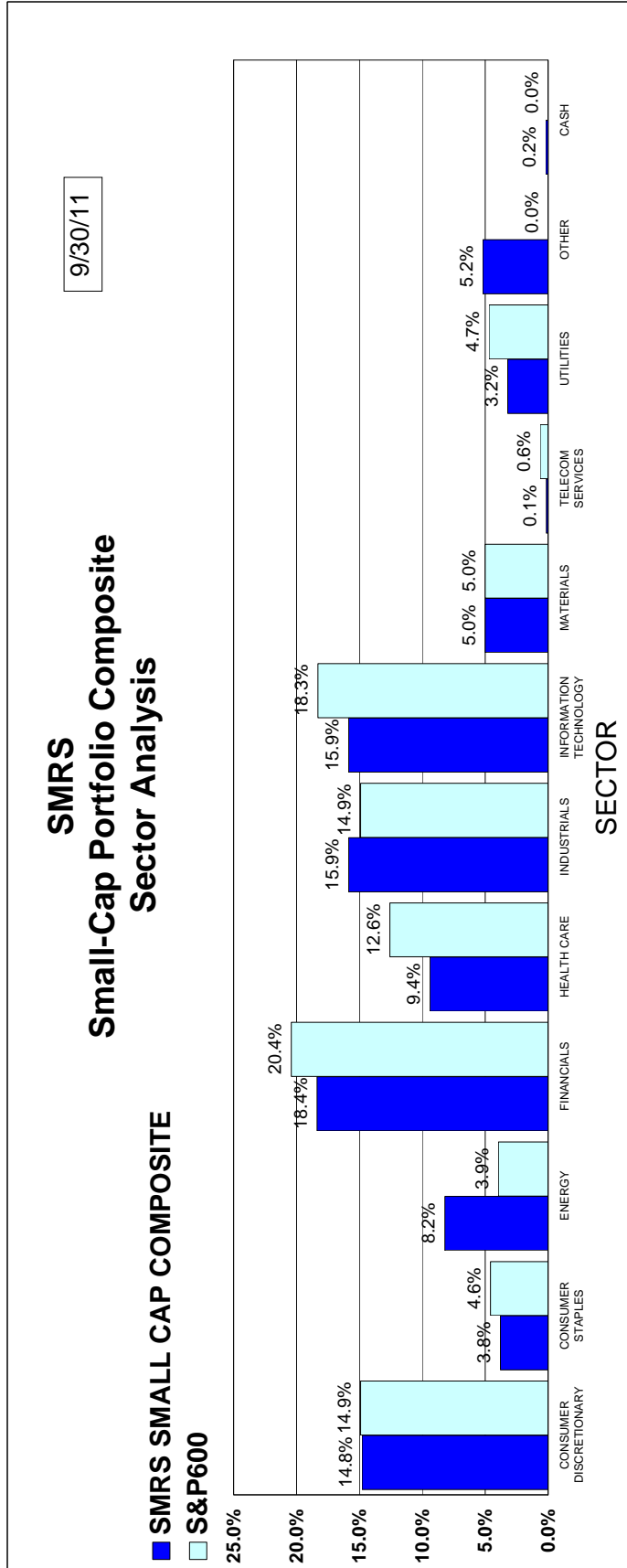
Characteristics:	<u>SMRS</u>	<u>S&P 600</u>
Weighted Average Capitalization (\$million):	\$1,536.7	\$1,105.1
Trailing 12-month P/E:	11.2x	14.7x
Forecast P/E:	12.6x	14.3x
Price/Book:	1.3x	1.5x
Beta:	1.27	1.28
Dividend Yield:	1.25%	1.41%
3-5 Year EPS Growth Estimate:	14.5%	14.2%
Return on Equity:	10.3%	11.6%

<u>Managers</u>	<u>9/30/2011</u>	<u>% of Total</u>
Champlain Small-Cap Core	\$ 88,992,628	12.03%
Donald Smith Small-Cap Core	\$ 137,464,799	18.59%
Fisher Small-Cap Core	\$ 185,538,782	25.09%
GW Capital Small-Cap Value	\$ 55,761,607	7.54%
Northpointe Small-Cap Value	\$ 66,765,785	9.03%
Opus Small-Cap Value	\$ 47,681,678	6.45%
Pier Small-Cap Growth	<u>\$ 157,346,252</u>	<u>21.28%</u>
	<u>\$ 739,551,532</u>	<u>100.00%</u>

9/30/2011

\$739.55

(\$ MILLION)



Internal Fund Performance Review

Large-Cap Core

- SMRS Large-Cap Core has returned -4.33% annualized since inception (7/31/2007), underperforming the S&P 500 Index by 55 bp annualized.
 - Over the past 12 months the SMRS Large-Cap Core fund has returned -7.40%, underperforming the S&P 500 Index by 855 bp.
- Inception-to-date performance in the 48th percentile (100=best) of managers SMRS has used since the beginning of its external manager program in 2001.
- Inception-to-date underperformance largely driven by large-cap bank exposure in 2011, as regulatory actions, the debt ceiling crisis and, most recently, turmoil in Europe caused a 2008 style depreciation in the values of a number of portfolio holdings.
 - Other contributors to underperformance include stock selection within the consumer discretionary and materials sectors.
 - Offset by good stock selection in the health care sector, as a handful of names in the portfolio were acquired and/or appreciated significantly, including Genzyme and Schering Plough.
 - Purchases of both Apple and Coach in 2008 significant contributors to the portfolio as well.
- Positioned for a recovery of the U.S. banking system and slow growth going forward.
 - Significant overweight to both financials and healthcare. Increased exposure to consumer staples. Underweight energy, industrials and materials.
 - Value bias in the portfolio, underweight momentum stocks.

Large-Cap Growth

- SMRS Large-Cap Growth has returned 2.52% annualized since inception (12/31/2004), outperforming the S&P 500 Growth index by 43 bp annualized.
 - Externally managed large-cap growth composite underperforming benchmark by roughly 250 bp annualized since inception in March of 2009.
 - SMRS Large-Cap Growth inception to date performance in the 60th percentile (100=best) of managers SMRS has used since the start of its external manager program in 2001.

- Over the past 12 months, SMRS Large-Cap Growth has returned 3.11%, underperforming the S&P 500 Growth Index by 175 bp.
- Inception-to-date performance has been driven by stock selection in the IT sector, including allocations to Cognizant Technology and Apple Computer.
 - Fund also benefitted from its significant underweight to Exxon Mobil, which formerly had been a large portion of the S&P 500 Growth benchmark.
 - Offset by performance of financial sector during 2011, as well as by stock selection in the materials sector.
- Positioned for cyclical recovery: overweight information technology, financials and industrials. Underweight consumer staples.
 - Value bias in the portfolio, slightly underweight in momentum stocks.

Large-Cap Value

- Large Cap Value has returned -6.97% annualized since inception, outperforming the S&P 500 Value Index by 5 bp annualized.
 - Externally managed large-cap value composite underperforming benchmark by roughly 57 bp annualized since inception (12/31/2009).
 - Inception-to-date performance in the 55th percentile (100=best) of managers SMRS has hired since inception of its external manager program in 2001.
- Over the past 12 months, SMRS Large-Cap Value has returned -1.01%, outperforming the S&P 500 Value Index by 165 bp.
- Inception-to-date performance has been driven by overweight to healthcare sector and underweight to the financials sector during the past few years.
 - Fund has also benefitted from good stock selection in the consumer discretionary and consumer staples spaces.
 - Offset by financial sector exposure early in the financial crisis as well as stock selection within the IT sector.
- Positioned for continued deleveraging and a slow economic environment: large cash position, underweight financials, energy and industrials. Significant technology overweight. Substantial health care exposure.

Sector/Industry Outlook

Large-Cap Bank Stocks

- Large-Cap Bank Stock fundamentals have improved dramatically since the credit crisis of a few years ago.
 - Tangible equity to tangible asset levels, adjusted for loan loss reserves, are at their highest levels in more than a decade, and will continue to increase due to Basel III regulatory requirements (chart 1).
 - Loan loss reserves as a percent of net loans have peaked, while loan loss provisions as a percent of net loans have dropped sharply from year ago levels (charts 2 & 3).
 - This signals that overall credit within the system is improving.
 - Loan growth continues to be slow, but will improve in line with the economy over time.
- Meanwhile, large-cap bank stocks valuations remain severely depressed.
 - Aggregate price/book ratio of .8, versus a historical average of 1.8 (chart 4).
 - Once banks are compliant with Basel III regulatory standards, dividend payout ratios will increase significantly from where they are today.
 - We are projecting that the aggregate dividend yield on large-cap bank stocks will be greater than 10% of today's prices by 2015, and grow to above 12% by the end of the decade.
 - An aggregate dividend yield of 5% in 2015 implies 2X stock appreciation for the sector between now and then.
 - Even if valuation ratios do not rebound to their previous highs, returns from the dividends alone will exceed SMRS' actuarial return hurdle.
- Combined internal active equity portfolios overweight the financials sector, offset by significant defensive allocations.

Chart 1

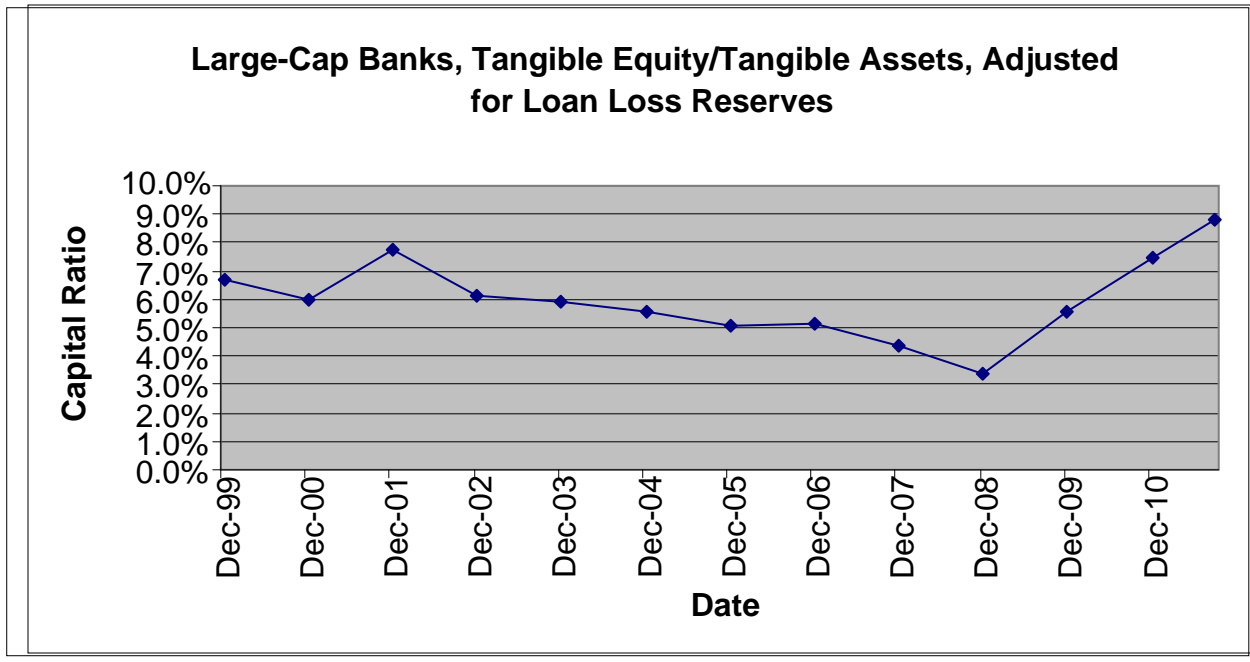


Chart 2

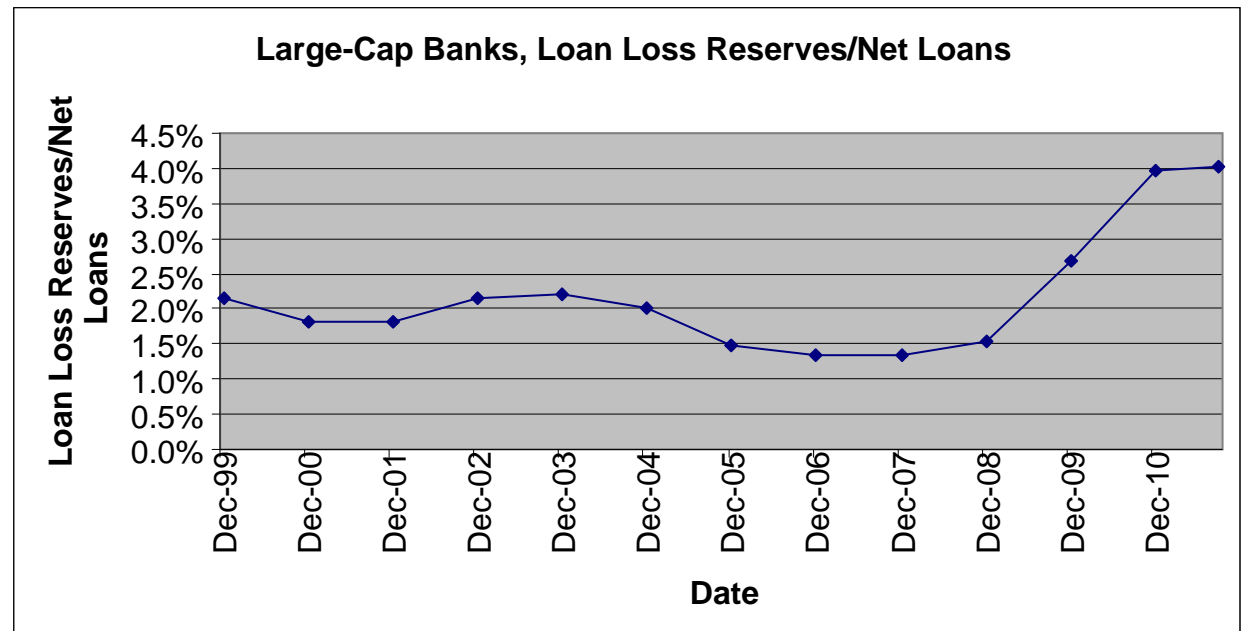


Chart 3

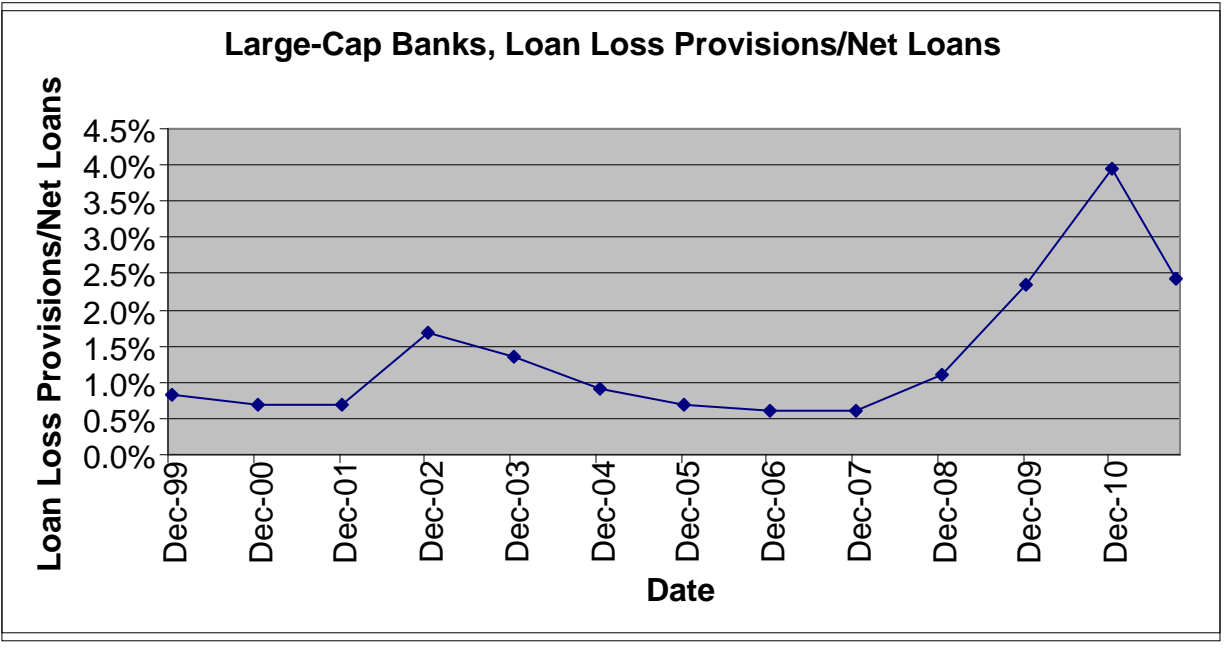


Chart 4

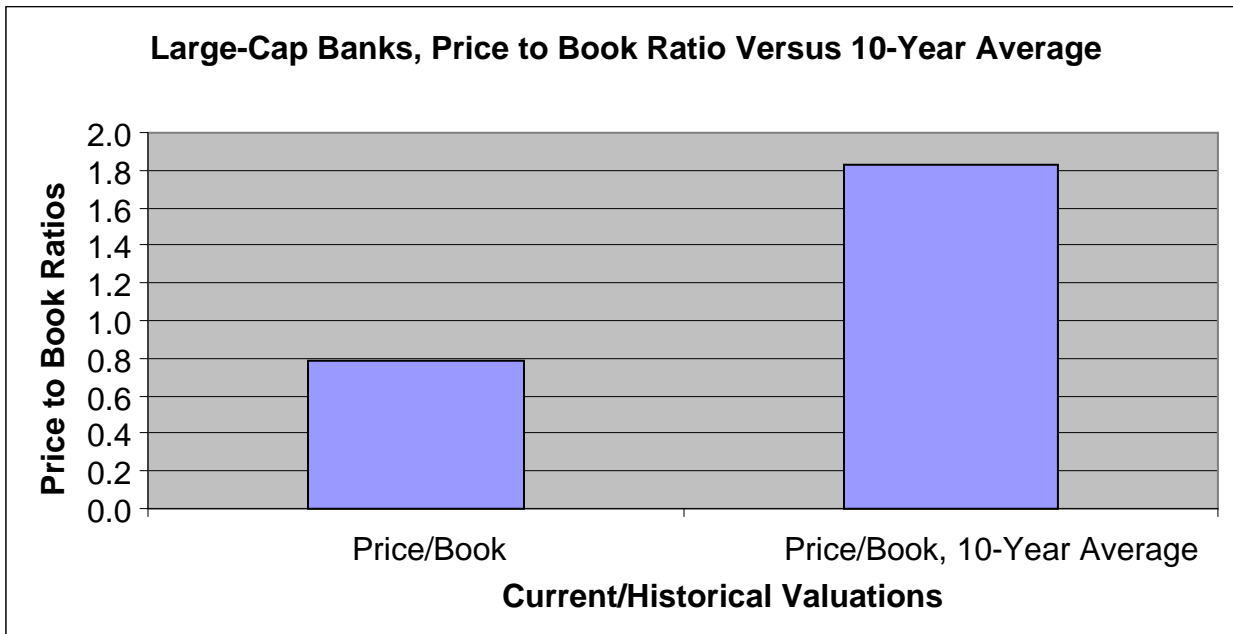
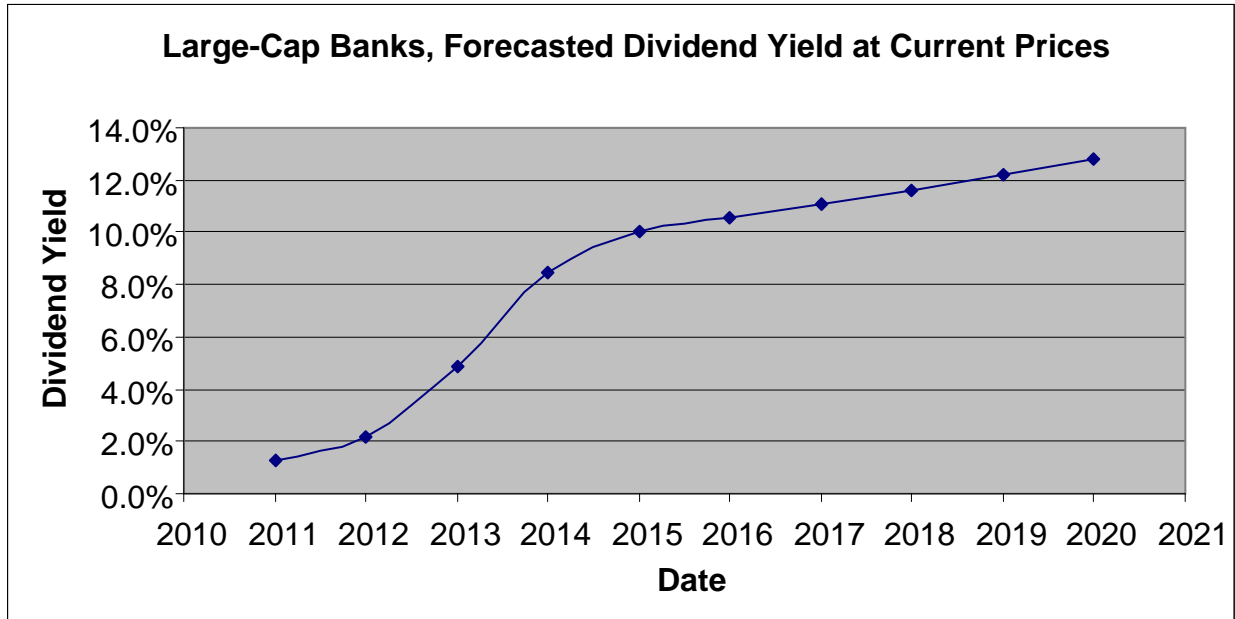


Chart 5



S&P 500 Valuation

- Estimated yield to maturity (bond equivalent return) on the S&P 500 increased to 10.2% at the end of Q3 as the market declined by roughly 14% during the quarter.
 - Yield to maturity estimate for S&P 500 based on normalized dividend yield (including share repurchases) of 4.7% of June 30, 2011, prices, plus long-term growth of 5.5%.
- Meanwhile the yield on the 30-year U.S. Treasury declined sharply, from 4.4% down to 2.9%, reflecting turmoil in Europe, the debt ceiling debate in the U.S., and to a lesser extent, the Fed's launch of Operation Twist.
 - Such low levels of interest rates are stimulative for the U.S. economy, despite the current slow growth environment. Should investors begin demanding a sharply higher rate of return from U.S. sovereign assets due to the country's debt burden, both economic growth and stocks would be negatively impacted.
 - That said, at 7.3%, the equity risk premium remains exceptionally wide relative to historical standards, both reflecting the significant economic risks present in the market and leaving room for interest rates to rise gradually.
- S&P 400 Mid-Cap and the S&P 600 Small-Cap indices continue to appear rich relative to the S&P 500 Large-Cap benchmark, although less so than in Q2.
 - Normalized price to earnings of 17X, 15X and 13X respectively on S&P 600, S&P 400 and S&P 500 indices.
 - Normalized dividend yields of .9%, 2.2% and 4.7% respectively on S&P 600, S&P 400 and S&P 500 indices.
 - Estimated yield to maturity of 8.4%, 9.7% and 10.2% on S&P 600, S&P 400 and S&P 500 indices.

Internal Active Equity Positioning

- The internal active equity portfolio is estimated to have a yield to maturity of nearly 11%, which compares favorably to the S&P 500 at 10.2%. This has been accomplished with roughly the same exposure to systematic risk as the benchmark.
 - The internal active equity portfolio's normalized earnings yield is 9.2% compared to the S&P 500 at 7.7%.
- The internal active equity portfolio's normalized dividend yield, including share repurchases, is estimated to be 5.9%, versus the S&P 500 at 4.7%.

- Internal Actively Managed Composite remains overweight in the Healthcare, Information Technology and Financial sectors.

This portfolio is positioned to outperform the S&P 500 over the medium term in either an up or a down market for the following reasons:

- Favorable valuation characteristics of the portfolio versus the benchmark.
- High quality nature and strong competitive positions of most companies owned.
- Overall risk profile similar to that of the S&P 500.

Internal Active Portfolio, Equity Return Expectations (9/30/2011)

Return Assumption Estimates			
	<u>Yield to Maturity ****</u>	<u>Normal Dividend Yield ***</u>	<u>LT Growth Rate ****</u>
SAD Internal Active Equity	10.9%	5.9%	5.0%
S&P 500 Large-Cap	10.2%	4.7%	5.5%
S&P 400 Mid-Cap	9.7%	2.2%	7.5%
S&P 600 Small-Cap	8.4%	0.9%	7.5%
US 30 Year Treasury	2.9%	2.9%	0.0%

Trailing 12 Month and Normalized Earnings Characteristics			
	<u>TTM Price/Earnings</u>	<u>Normal Price/Earnings</u>	<u>Normal Earnings Yield *</u>
SAD Internal Active Equity	12.8	10.8	9.2%
S&P 500 Large-Cap	14.4	13.0	7.7%
S&P 400 Mid-Cap	18.4	15.0	6.6%
S&P 600 Small-Cap	21.4	17.0	5.9%

Normalized Earnings & Dividend Characteristics			
	<u>Normal Earnings Yield</u>	<u>Normal Payout Ratio</u>	<u>Normal Dividend Yield **</u>
SAD Internal Active Equity	9.2%	64%	5.9%
S&P 500 Large-Cap	7.7%	61%	4.7%
S&P 400 Mid-Cap	6.6%	33%	2.2%
S&P 600 Small-Cap	5.9%	15%	0.9%

Internal & Third Party Valuation Matrix			
	<u>Morningstar</u>	<u>Valueline</u>	<u>Value Engine</u>
SAD Internal Active Equity	27.4%	39.0%	27.4%
S&P 500	18.1%	25.1%	18.2%
Excess Return	9.3%	13.9%	9.1%

* Earnings Yield = Earnings/Price

** Includes Share Buybacks

*** LT Growth Rate Calculation: Return on Equity * (1-Dividend Payout Ratio)

**** Yield to Maturity Formula: Dividend Yield + LT Growth Rate

SMRS Internal/External Manager Performance as of 9/30/2011

Large-Cap Managers

	<u>Market Value</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Inception</u>	<u>Inception Date</u>
Active Equity Large Cap Composite	\$6,264,914	-2.21%	0.65%	-1.71%	N/A	
S&P 500		1.14%	1.23%	-1.18%	N/A	
SMRS Large Cap Core Funds						
SMRS Internal Large Cap Core	\$1,823,803	-7.40%	0.72%	N/A	-4.33%	7/31/2007
S&P 500		1.14%	1.23%	N/A	-3.77%	
SMRS Large Cap Value Funds						
SMRS Internal Large Cap Value	\$1,172,143	-1.01%	-1.80%	N/A	-6.97%	7/31/2007
S&P 500 Value Index		-2.66%	-2.19%	N/A	-7.02%	
External Large Cap Value Composite *	\$1,085,033	-2.66%	N/A	N/A	0.22%	12/31/2009
S&P 500 Value Index		-2.66%	N/A	N/A	0.79%	
LSV Large Cap Value	\$445,562	-4.11%	N/A	N/A	0.43%	12/31/2009
S&P 500 Value Index		-2.66%	N/A	N/A	0.79%	
Wasatch Advisors	\$208,468	-4.92%	N/A	N/A	-1.99%	12/31/2009
S&P 500 Value Index		-2.66%	N/A	N/A	0.79%	
Epoch Large Cap Value	\$206,458	-0.41%	N/A	N/A	1.69%	12/31/2009
S&P 500 Value Index		-2.66%	N/A	N/A	0.79%	
Diamond Hill Large Cap	\$224,545	-0.42%	N/A	N/A	0.12%	12/31/2009
S&P 500 Value Index		-2.66%	N/A	N/A	0.79%	
SMRS Large Cap Growth Funds						
SMRS Internal Large Cap Growth	\$1,283,872	3.11%	4.48%	1.46%	2.52%	1/1/2005
S&P 500 Growth Index		4.85%	4.47%	1.41%	2.09%	
External Large Cap Growth Composite *	\$712,602	3.07%	N/A	N/A	15.82%	3/31/2009
S&P 500 Growth Index		4.85%	N/A	N/A	18.35%	
Edgewood Large Cap Growth	\$564,409	4.42%	N/A	N/A	14.04%	3/31/2009
S&P 500 Growth Index		4.85%	N/A	N/A	18.35%	

Mid-Cap Managers

	<u>Market Value</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Inception</u>	<u>Inception Date</u>
External Mid Cap Composite	\$753,508	-0.61%	2.69%	0.86%	3.72%	4/30/2005
S&P 400 Mid Cap Index		-1.28%	4.05%	2.20%	4.80%	
SMRS Mid-Cap Core Funds						
Champlain Investment Partners, Mid Cap	\$63,277	3.08%	N/A	N/A	17.97%	1/31/2009
S&P 400 Mid Cap Index		-1.28%	N/A	N/A	20.15%	
LA Capital Mid-Cap Core	\$56,766	-1.58%	3.65%	2.34%	5.59%	4/30/2005
S&P 400 Mid Cap Index		-1.28%	4.05%	2.20%	4.80%	
Seizert Capital Partners	\$103,727	-0.89%	N/A	N/A	8.55%	10/31/2009
S&P 400 Mid Cap Index		-1.28%	4.05%	2.20%	10.84%	
Munder Mid-Cap Core Growth	\$106,510	2.00%	N/A	N/A	20.98%	3/31/2009
S&P 400 Mid Cap Index		-1.28%	4.05%	2.20%	22.37%	
SMRS Mid-Cap Value Funds						
Artisan Mid-Cap Value	\$170,142	3.32%	5.72%	4.23%	6.46%	5/1/2005
S&P 400 Value Index		-5.38%	1.16%	-0.06%	3.19%	
Cramer Rosenthal Mid-Cap Value	\$75,913	-3.93%	1.52%	1.54%	4.48%	4/30/2005
S&P 400 Value Index		-5.38%	1.16%	-0.06%	3.19%	
SMRS Mid-Cap Growth Funds						
Rainier Mid-Cap Growth	\$91,036	-1.65%	-1.67%	-0.56%	0.65%	1/1/2006
S&P 400 Growth Index		2.91%	6.98%	4.43%	4.07%	
Wellington Mid-Cap Growth	\$86,137	-7.15%	2.05%	-0.25%	1.18%	1/1/2006
S&P 400 Growth Index		2.91%	6.98%	4.43%	4.07%	

Small-Cap Managers

	<u>Market Value</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Inception</u>	<u>Inception Date</u>
External Small Cap Composite	\$739,553	-5.15%	2.35%	1.88%	5.86%	10/1/2001
S&P 600 Small Cap Index		0.21%	0.76%	0.26%	7.40%	
SMRS Small Cap Core Managers						
Champlain Small-Cap Core	\$88,993	5.81%	2.98%	N/A	3.76%	1/31/2007
S&P 600 Index		0.21%	0.76%	0.26%	-1.75%	
SMRS Small Cap Value Managers						
Fisher Small-Cap Value	\$185,539	-8.28%	0.18%	1.74%	5.36%	9/30/2004
S&P 600 Value Index		-3.55%	-1.29%	-1.66%	2.96%	
Donald Smith & Co.	\$137,465	-5.65%	11.51%	N/A	3.75%	1/31/2007
S&P 600 Value Index		-3.55%	-1.29%	N/A	-3.89%	
GW Capital Small Cap Value	\$55,762	-4.81%	-2.14%	N/A	-3.25%	1/31/2007
S&P 600 Value Index		-3.55%	-1.29%	N/A	-3.89%	
Northpointe Small Cap Value	\$66,766	-10.42%	-2.10%	-3.83%	1.15%	10/1/2004
S&P 600 Value Index		-3.55%	-1.29%	-1.66%	2.96%	
Opus Capital Small-Cap Value	\$47,682	-4.49%	0.76%	N/A	-2.89%	1/31/2007
S&P 600 Value Index		-3.55%	-1.29%	N/A	-3.89%	
SMRS Small Cap Growth Managers						
Pier Small-Cap Growth	\$157,346	-4.39%	2.47%	N/A	1.13%	1/31/2007
S&P 600 Growth Index		4.21%	2.87%	N/A	0.42%	

All-Cap Managers

SMRS Manager of Managers		<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Inception</u>	<u>Inception Date</u>
Attucks Asset Management	\$149,847	0.10%	1.20%	N/A	-4.55%	11/1/2007
S&P 1500 Super Composite		0.92%	1.44%	N/A	-5.30%	
Leading Edge Investment Advisors	\$41,023	-0.48%	1.69%	N/A	-4.64%	11/1/2007
S&P 1500 Super Composite		0.92%	1.44%	N/A	-5.30%	
Bivium Capital Partners	\$136,572	1.49%	2.29%	N/A	-5.15%	11/1/2007
S&P 1500 Super Composite		0.92%	1.44%	N/A	-5.30%	

Summary Statistics	<u>Market Value</u>	<u>% of Total</u>	<u>S&P 1500</u>
Internal Large Cap	\$4,492,408	33%	
External Large Cap	\$1,797,635	13%	
Large Cap Passive	\$4,827,821	36%	
Total Large Cap Equity	\$11,517,864	86%	88%
Mid Cap Active	\$649,781	5%	
Mid Cap Passive	\$508,475	4%	
Total Mid-Cap Equity	\$1,158,256	9%	8%
Small Cap Active	\$339,553	3%	4%
All Cap	\$431,169	3%	
Total Domestic Equity	\$13,446,842	100%	

* Non-official performance estimate

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

FIXED INCOME REVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Paul R. Nelson II, CFA, Administrator
Long-Term Fixed Income Division**

EXECUTIVE SUMMARY

Long-Term Fixed Income

- Treasury yields are near historic lows and the yield curve is steep. Quality spreads are still wide. Under these conditions, investors are being paid to accept some credit risk but should avoid excessive maturity extension risk.
- Accordingly, the Long-Term Fixed Income Division continues to focus on five to ten year maturities and ride the yield curve where possible. To take advantage of spreads, purchases will tend to be skewed toward A and Baa issues with an overall portfolio rating of single A or better.
- Later, as spreads narrow and rates increase, the Division focus will shift to higher grade and longer maturity issues.

Fixed Income Internal Portfolio
 Government and Corporate Yields
 For One-Year Period Ending September 30, 2011

	<u>Government Portfolio</u>	<u>Corporate Portfolio</u>	<u>Total Fixed Income Internal Portfolio</u>
Total Income	\$79,568,951.74	\$189,855,074.70	\$269,424,026.44
Market Value*	\$1,613,465,842.96	\$4,139,785,451.95	\$5,753,251,294.91
Current Yield	4.93%	4.59%	4.68%
*as of 9/30/11			

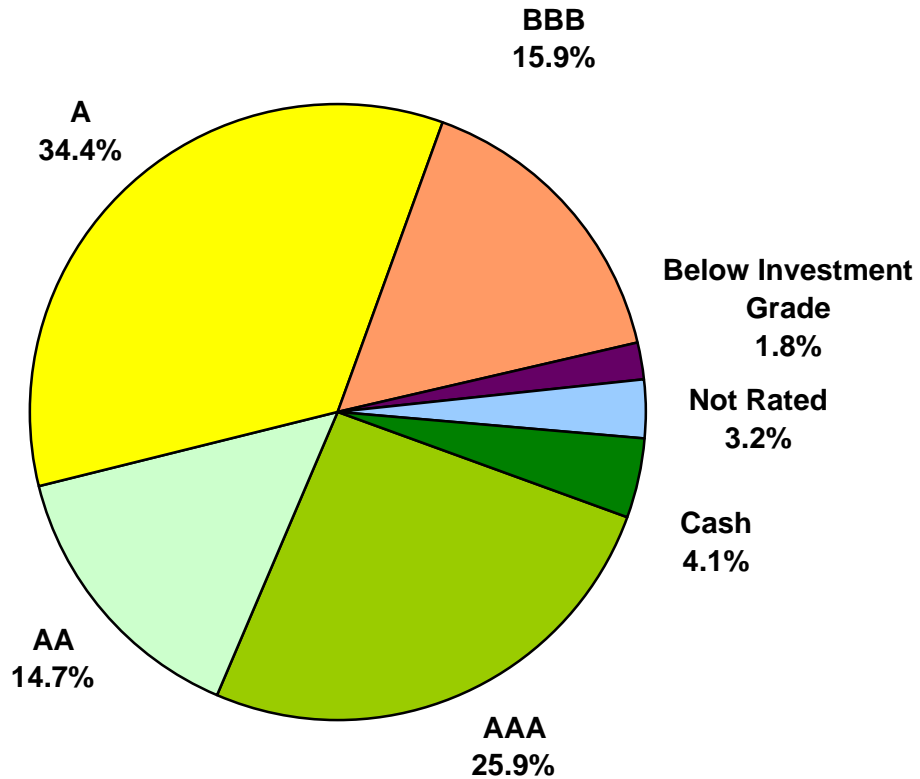


SMRS

Fixed Income By Rating

Total U.S. Government and Corporate Holdings

9/30/11



Market Value in Millions				
	9/30/2011		6/30/2011	
AAA	\$1,858	25.9%	\$1,804	25.3%
AA	1,055	14.7%	1,052	14.8%
A	2,472	34.4%	2,442	34.3%
BBB	1,139	15.9%	1,132	15.9%
Not Rated	230	3.2%	307	4.3%
Below Investment Grade	130	1.8%	105	1.5%
Cash Equivalents	298	4.1%	281	3.9%
Total Investments	\$7,182	100.0%	\$7,123	100.0%

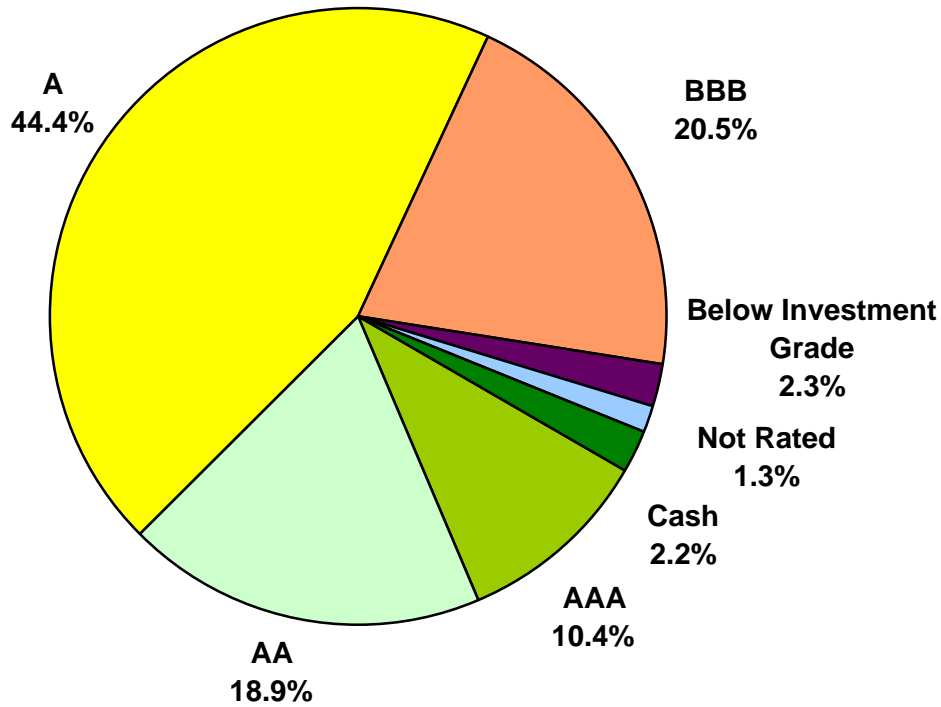


SMRS

Fixed Income By Rating

Corporate Holdings By Rating

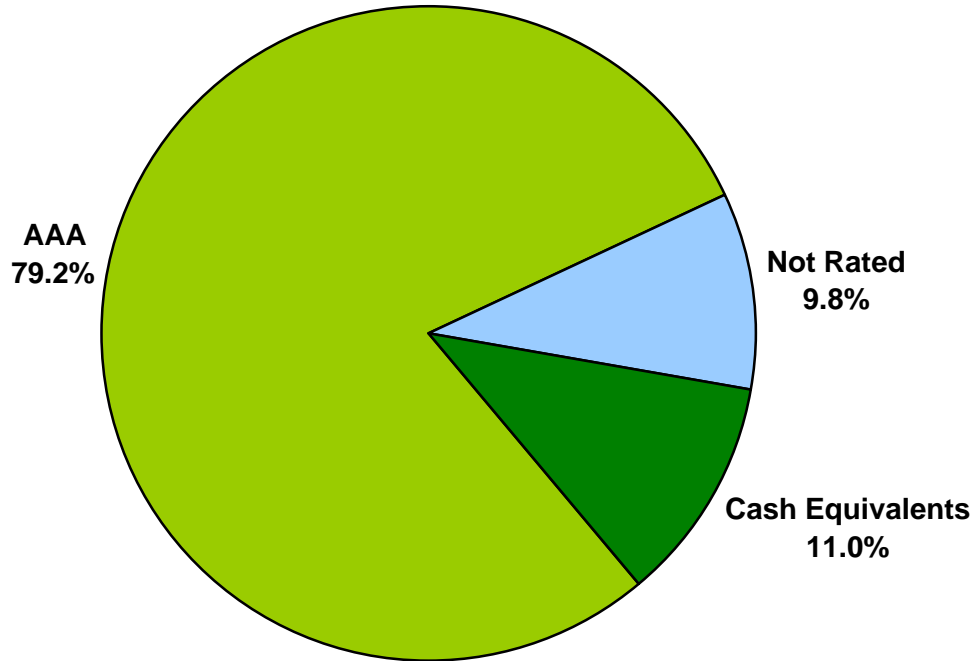
9/30/11



Market Value in Millions					
	9/30/2011		6/30/2011		
AAA	\$580	10.4%	\$508	9.2%	
AA	1,055	18.9%	1,052	19.1%	
A	2,472	44.4%	2,442	44.4%	
BBB	1,139	20.5%	1,132	20.6%	
Not Rated	73	1.3%	91	1.6%	
Below Investment Grade	130	2.3%	105	1.9%	
Cash Equivalents	120	2.2%	175	3.2%	
Total Investments	\$5,569	100.0%	\$5,505	100.0%	



SMRS
Fixed Income
 U.S. Government Internal Holdings
 9/30/11



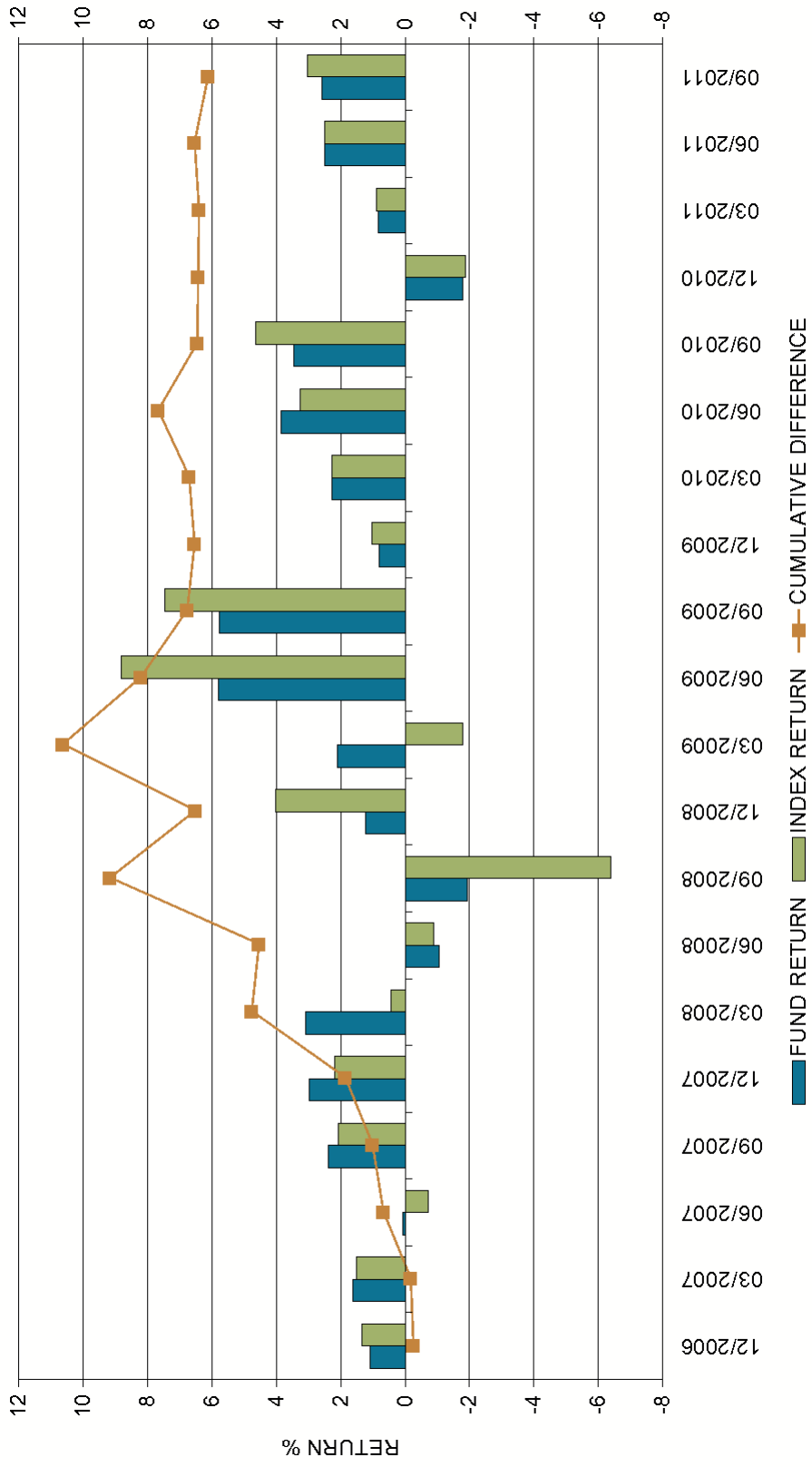
Market Value in Millions				
	9/30/2011		6/30/2011	
AAA	1,278	79.2%	1,296	80.1%
Not Rated	157	9.8%	216	13.4%
Cash Equivalents	178	11.0%	106	6.5%
Total	\$1,613	100.0%	\$1,618	100.0%

Michigan Department of Treasury, Bureau of Investments

Michigan State Treasury Supersponsor
 INTERNAL CORPORATE FUND
 Index: BC CREDIT

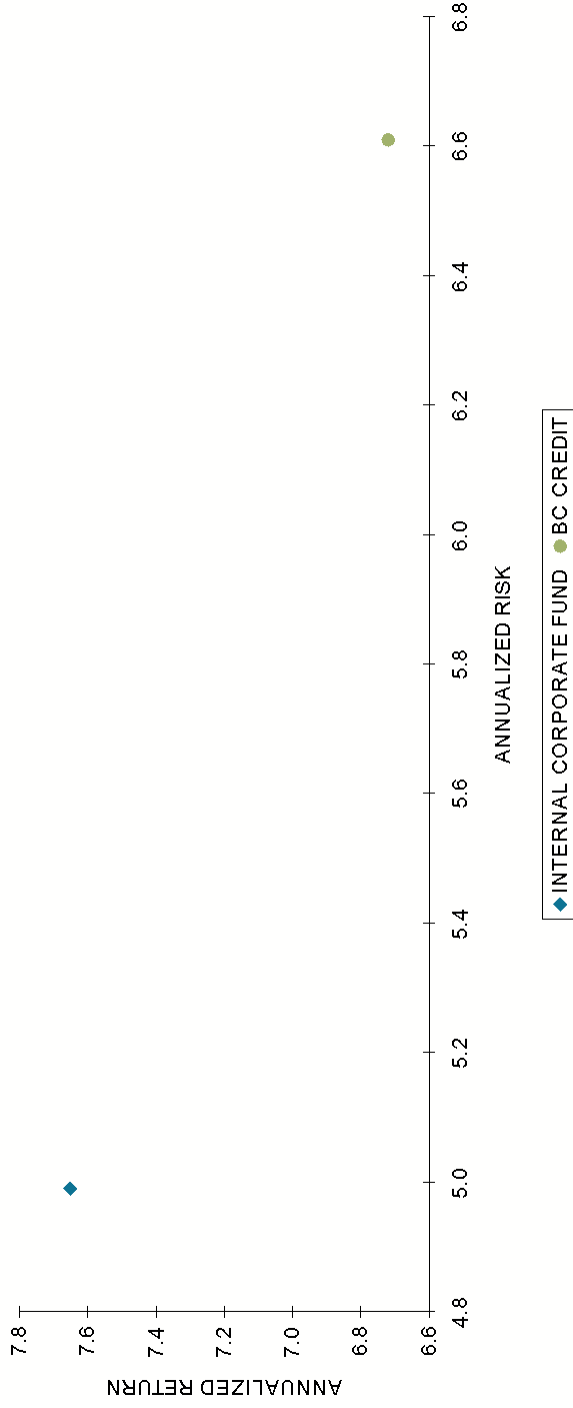
PERIODS: September 30, 2006 - September 30, 2011

CUMULATIVE PERFORMANCE REPORT



**Michigan State Treasury Supersponsor
INTERNAL CORPORATE FUND
Index: BC CREDIT
PERIODS: September 30, 2006 - September 30, 2011**

RISK VS. RETURN



RISK INFORMATION

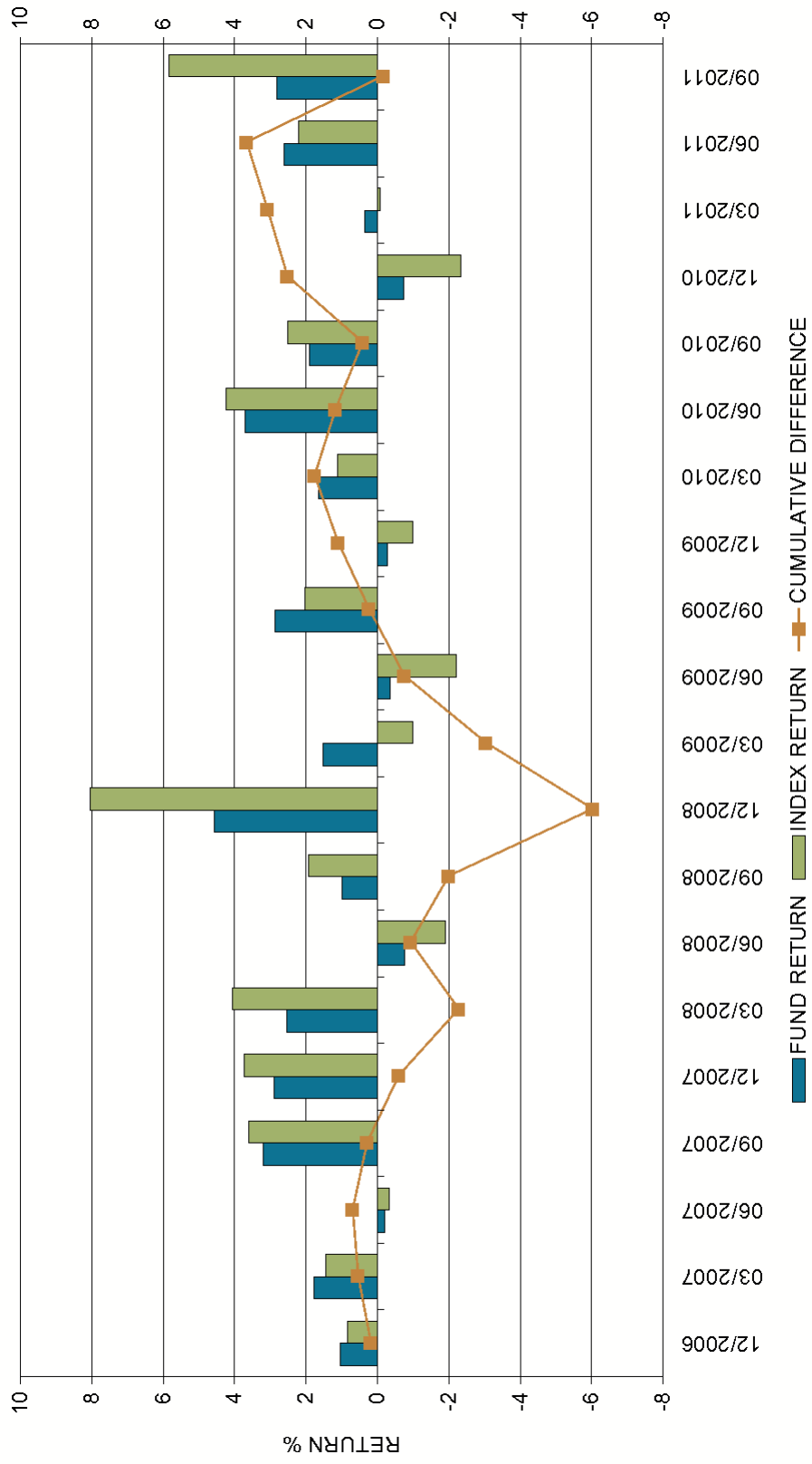
Portfolio Return	7.65
Benchmark Return	6.72
Return Differences	0.93
Portfolio Standard Deviation	4.99
Benchmark Standard	6.61
Tracking Error	3.29

RISK STATISTICS

Historic Beta	0.66
R-squared	0.78
Jensen's Alpha	2.60
Sharpe Ratio	1.19
Treynor Ratio	8.90
Information Ratio	0.28

Michigan State Treasury Supersponsor
INTERNAL GOVERNMENT FUND
 Index: BC US Agg Govt
PERIODS: September 30, 2006 - September 30, 2011

CUMULATIVE PERFORMANCE REPORT

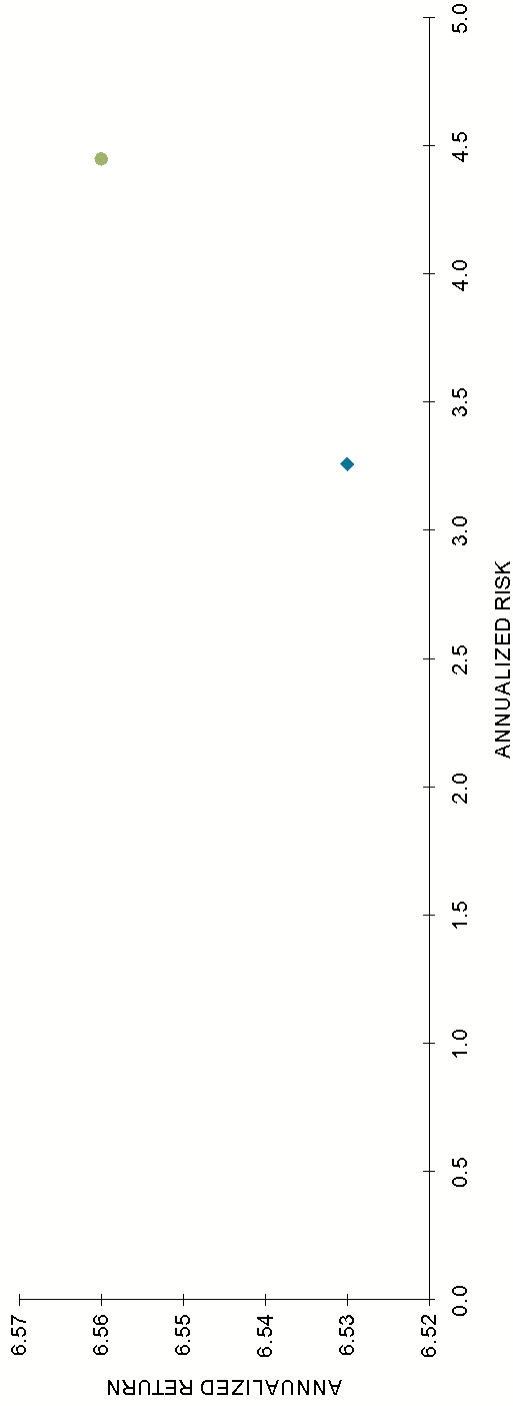


Michigan State Treasury Supersponsor
INTERNAL GOVERNMENT FUND

Index: BC US Agg Govt

PERIODS: September 30, 2006 - September 30, 2011

RISK VS. RETURN



RISK INFORMATION

Portfolio Return	6.53
Benchmark Return	6.56
Return Differences	-0.03
Portfolio Standard Deviation	3.26
Benchmark Standard	4.45
Tracking Error	2.04

RISK STATISTICS

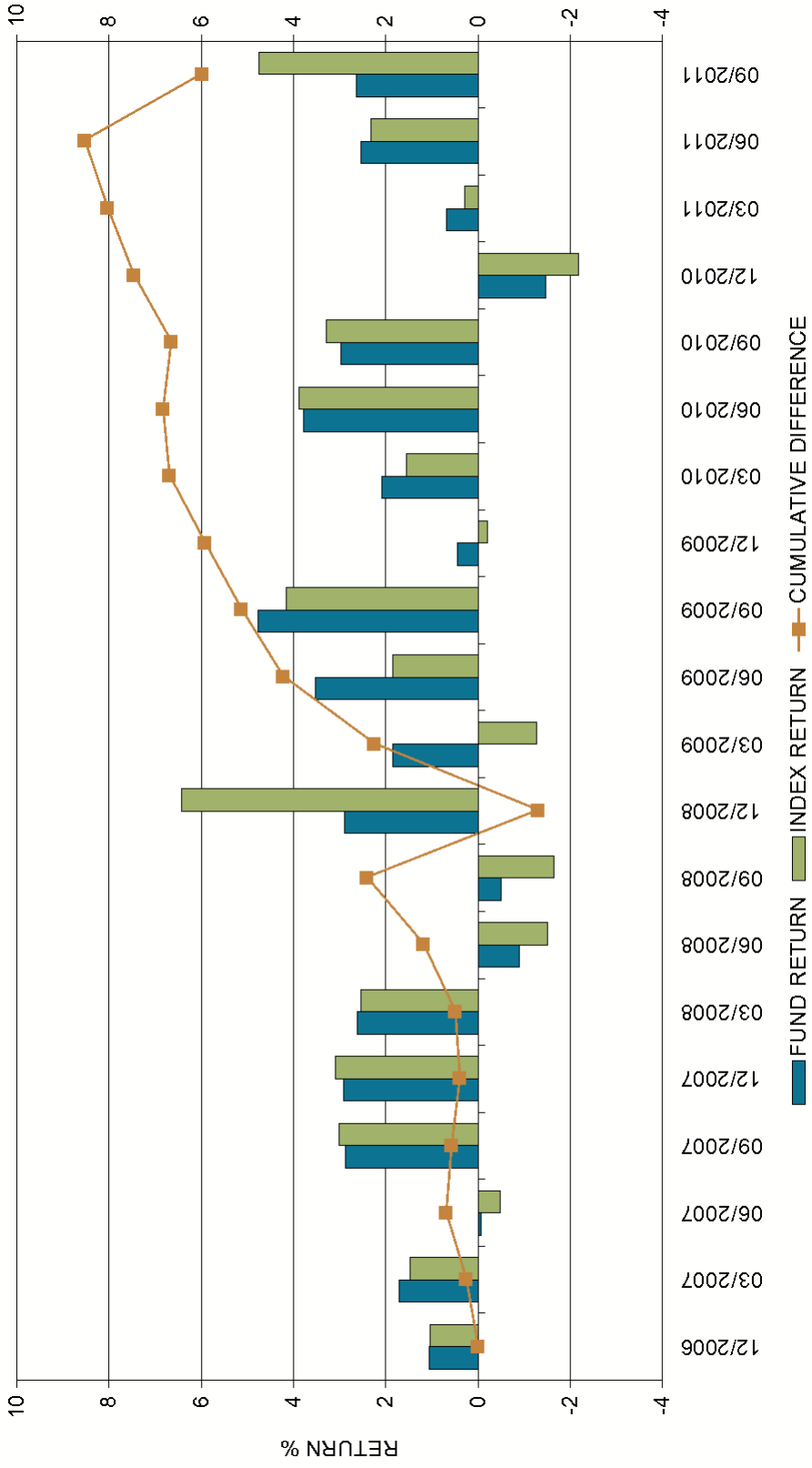
Historic Beta	0.67
R-squared	0.81
Jensen's Alpha	1.57
Sharpe Ratio	1.47
Treynor Ratio	7.18
Information Ratio	-0.01

**Michigan State Treasury Supersponsor
DOMESTIC FIXED INCOME AGGREGATE**

Index: BC Govt/CREDIT

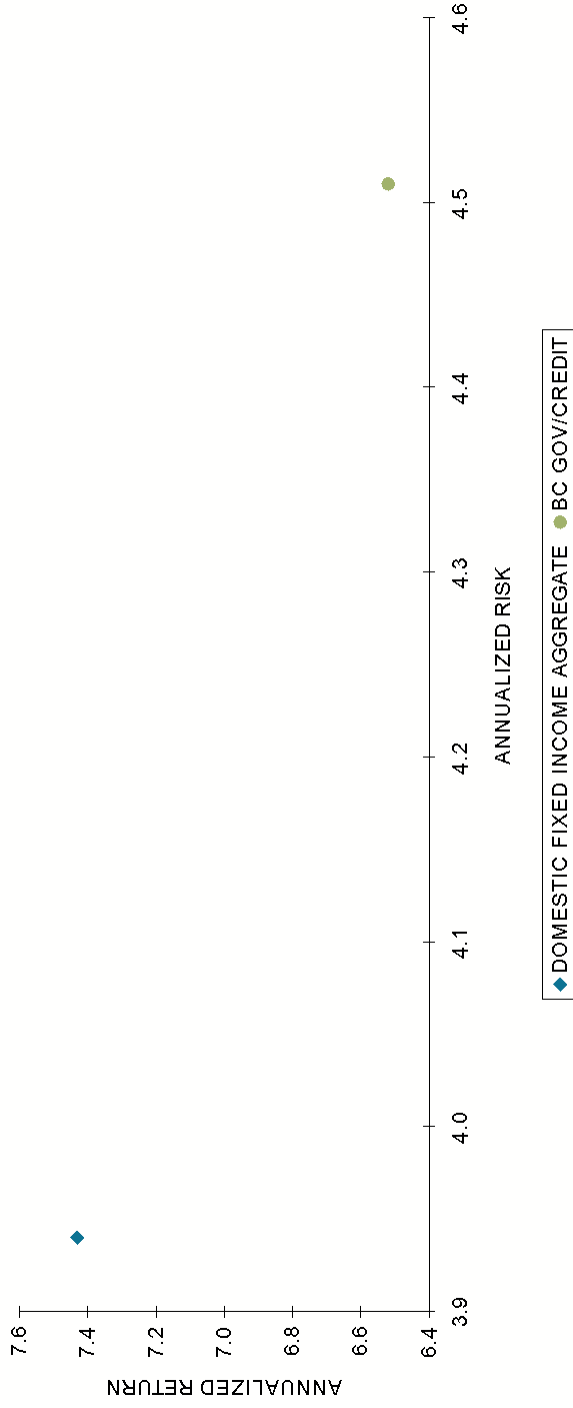
PERIODS: September 30, 2006 - September 30, 2011

CUMULATIVE PERFORMANCE REPORT



Michigan State Treasury Supersponsor
DOMESTIC FIXED INCOME AGGREGATE
 Index: BC GOVT/CREDIT
 PERIODS: September 30, 2006 - September 30, 2011

RISK VS. RETURN



RISK INFORMATION

Portfolio Return	7.43
Benchmark Return	6.52
Return Differences	0.92
Portfolio Standard Deviation	3.94
Benchmark Standard	4.51
Tracking Error	1.87

RISK STATISTICS

Historic Beta	0.80
R-squared	0.83
Jensen's Alpha	1.86
Sharpe Ratio	1.45
Treynor Ratio	7.11
Information Ratio	0.49

State of Michigan Retirement Systems
Corporate Fixed Income Internal Holdings

Portfolio Characteristics

Benchmark: Barclays Capital U.S. Credit

September 30, 2011 June 30, 2011

<i>Characteristic</i>	September 30, 2011			June 30, 2011		
	<i>Portfolio</i>	<i>Benchmark</i>	<i>Relative (%)</i>	<i>Portfolio</i>	<i>Benchmark</i>	<i>Relative (%)</i>
Maturity (Yrs)	5.1	10.7	47.7	5.2	10.1	51.5
Maturity (Yrs) w/Cash Equiv.	5.1	10.7	47.7	5.1	10.1	50.5
Duration (Yrs)	4.3	6.8	63.2	4.3	6.2	69.4
Duration (Yrs) w/Cash Equiv.	4.2	6.8	61.8	4.3	6.2	69.4
Coupon (%)	4.9	5.4	90.7	4.9	5.6	87.5
Yield to Maturity (%)	2.3	3.7	62.2	2.5	3.7	67.6
Moody's Quality	A-3	A-3		A-3	A-3	
S&P Quality	A	A-		A	A-	

State of Michigan Retirement Systems
Government Fixed Income Internal Holdings

Portfolio Characteristics

Benchmark: Barclays Capital Government

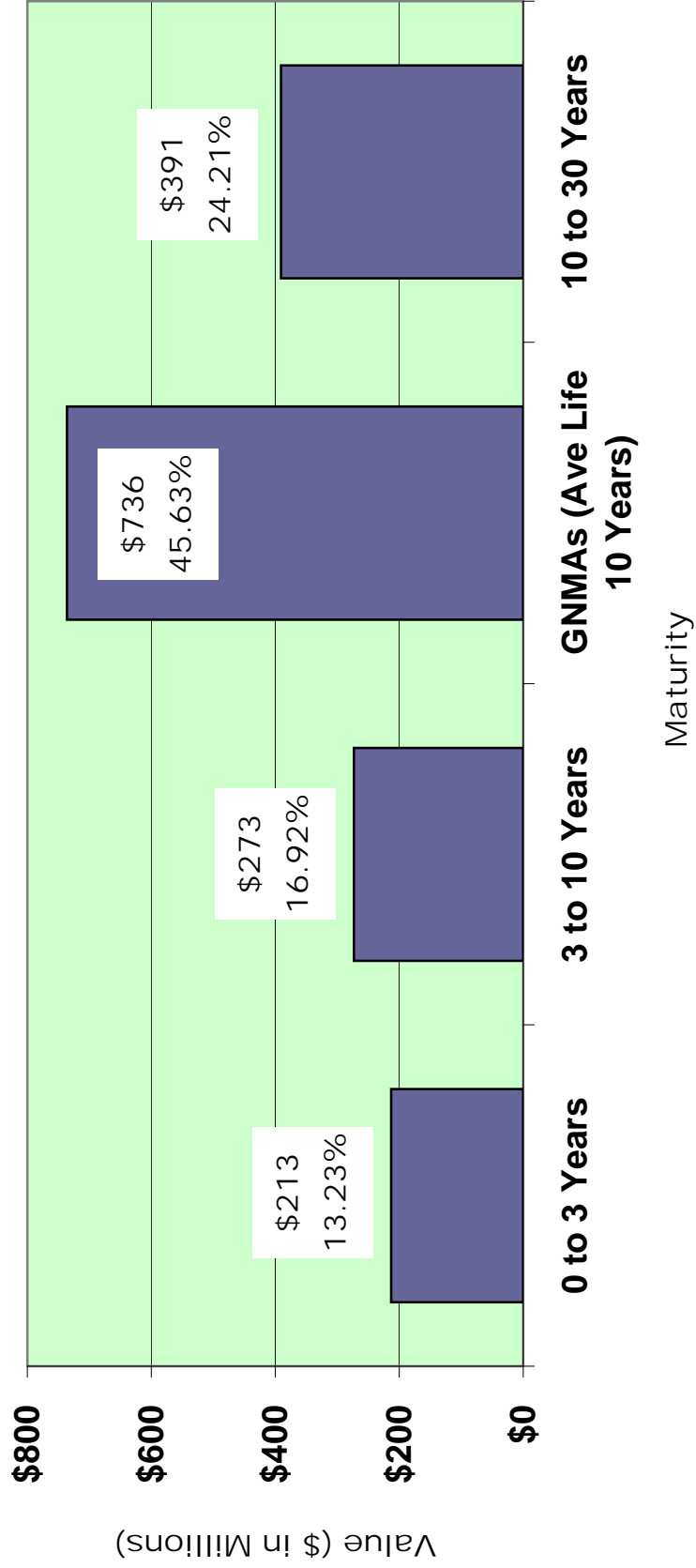
September 30, 2011 June 30, 2011

<i>Characteristic</i>	September 30, 2011			June 30, 2011		
	<i>Portfolio</i>	<i>Benchmark</i>	<i>Relative (%)</i>	<i>Portfolio</i>	<i>Benchmark</i>	<i>Relative (%)</i>
Maturity (Yrs)	5.1	7.0	72.9	6.0	6.4	93.8
Maturity (Yrs) w/Cash Equiv.	4.4	7.0	62.9	5.6	6.4	87.5
Duration (Yrs)	3.9	5.5	70.9	4.9	4.8	102.1
Duration (Yrs) w/Cash Equiv.	3.3	5.5	60.0	4.6	4.8	95.8
Coupon (%)	4.3	2.9	148.3	4.3	3.0	143.3
Yield to Maturity (%)	2.3	1.1	209.1	2.7	1.7	158.8
Moody's Quality	AGY	TSY		AGY	TSY	
S&P Quality	AGY	TSY		AGY	TSY	

Fixed Income Internal Portfolio
 Government Portfolio Maturity Distribution

As of September 30, 2011

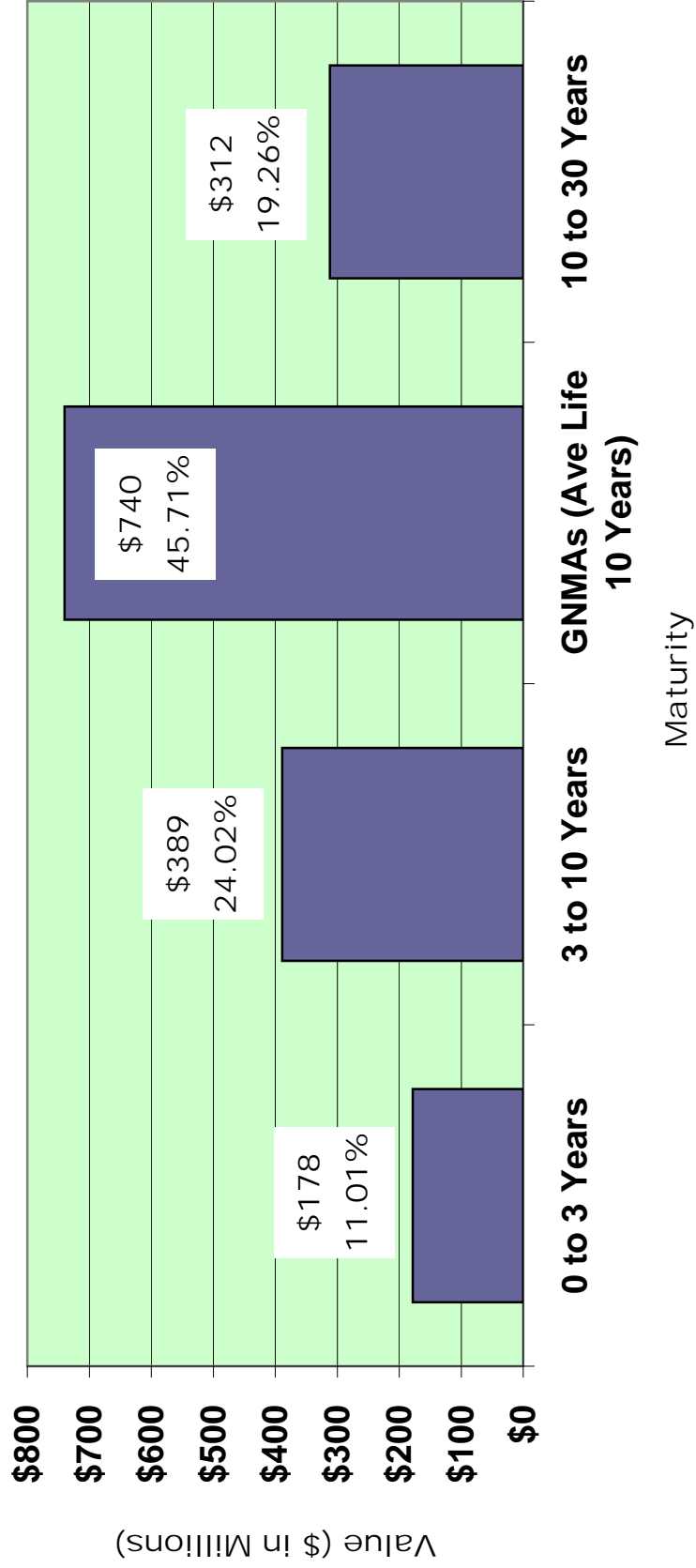
Average Maturity of July 2020
 Total Market Value \$1,613 Million



Fixed Income Internal Portfolio Government Portfolio Maturity Distribution

As of June 30, 2011

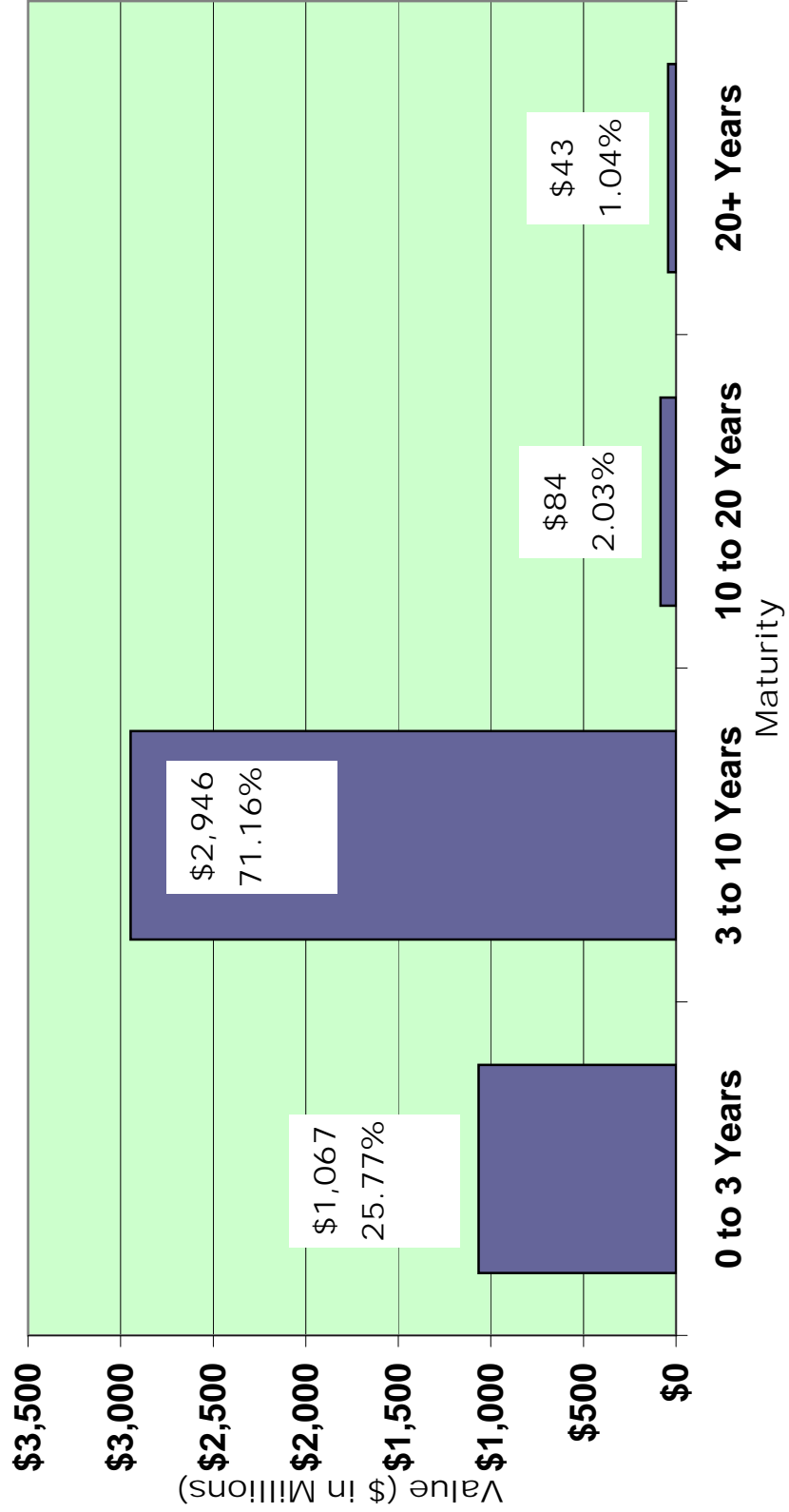
Average Maturity of January 2020
Total Market Value \$1,619 Million



Fixed Income Internal Portfolio Corporate Portfolio Maturity Distribution

As of September 30, 2011

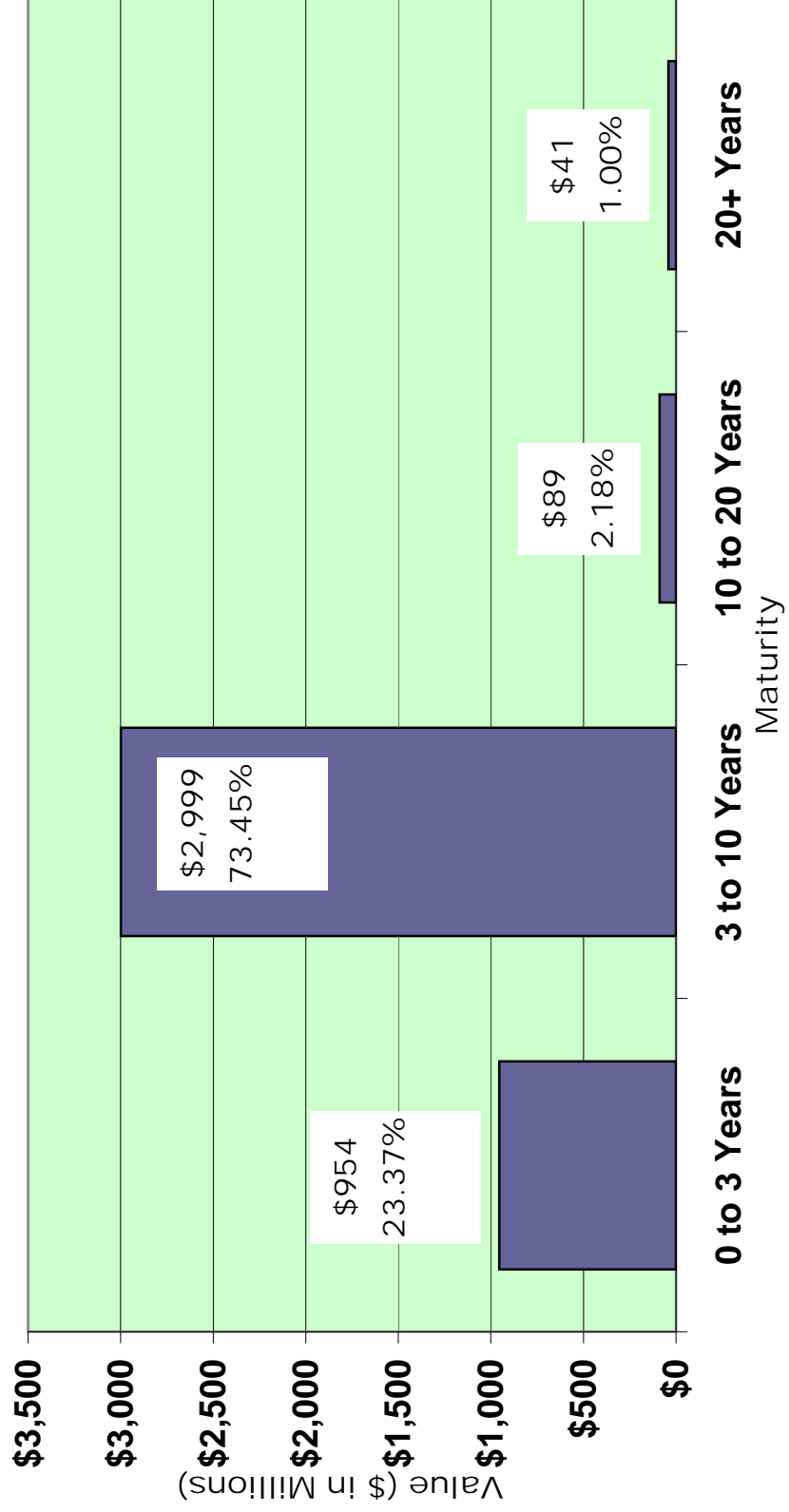
Average Maturity of September 2016
Total Market Value \$4,140 Million



Fixed Income Internal Portfolio Corporate Portfolio Maturity Distribution

As of June 30, 2011

Average Maturity of July 2016
Total Market Value \$4,084 Million



Fixed Income Internal Portfolio Top Ten Corporate Holdings

As of September 30, 2011				
Name	Par Value	Market Value	Rating*	% of Total Portfolio
General Electric Capital Co.	\$181,675,000	\$175,919,252	Aa2/AA+	3.06%
Emerson Electric Co.	\$100,470,000	\$115,474,334	A2/A	2.01%
Royal Dutch Shell PLC (CL B)	\$97,320,000	\$110,222,199	Aa1/AA	1.92%
Eli Lilly & Co.	\$80,000,000	\$91,638,495	A2/AA-	1.59%
GlaxoSmithKline Capital	\$75,000,000	\$84,494,928	A1/A+	1.47%
Eaton Corp.	\$70,000,000	\$78,195,405	A3/A-	1.36%
E.I. DuPont de Nemours & Co.	\$70,000,000	\$77,597,530	A2/A	1.35%
DTE Energy Co.	\$66,750,000	\$76,908,483	A2/A	1.34%
Target Corp.	\$60,000,000	\$70,194,630	A2/A+	1.22%
The Dow Chemical Co.	\$60,757,000	\$67,604,678	Baa3/BBB	1.18%
TOTAL	<u>\$861,972,000</u>	<u>\$948,249,933</u>		16.48%

As of June 30, 2011				
Name	Par Value	Market Value	Rating*	% of Total Portfolio
General Electric Capital Co.	\$181,675,000	\$181,161,777	Aa2/AA+	3.18%
Emerson Electric Co.	\$100,470,000	\$112,704,377	A2/A	1.98%
Royal Dutch Shell PLC (CL B)	\$97,320,000	\$108,276,419	Aa1/AA	1.90%
Eli Lilly & Co.	\$80,000,000	\$89,833,030	A2/AA-	1.58%
GlaxoSmithKline PLC	\$75,000,000	\$82,831,805	A1/A+	1.45%
Merck & Co Inc	\$69,672,000	\$76,517,297	Aa3/AA	1.34%
Eaton Corp.	\$70,000,000	\$76,152,518	A3/A-	1.34%
E.I. DuPont de Nemours & Co.	\$70,000,000	\$75,650,876	A2/A	1.33%
DTE Energy Co.	\$66,750,000	\$72,201,307	A2/A	1.27%
Target Corp.	\$60,000,000	\$68,308,875	A2/A+	1.20%
TOTAL	<u>\$870,887,000</u>	<u>\$943,638,281</u>		16.55%

*Moody's/Standard & Poor's

Fixed Income Internal Portfolio (Purchases) / Sales

June 30, 2011 - September 30, 2011

GOVERNMENT PORTFOLIO	
<i>Purchases</i>	<i>Market Value</i>
U.S. Agencies	(\$128,310,772)
GNMA	<u>(\$18,433,487)</u>
Total Purchases	(\$146,744,259)
 <i>Sales/Calls/Maturities</i>	
Treasuries	\$36,100,389
U.S. Agencies	155,706,345
U.S. Guaranteed	<u>52,659,050</u>
Total Sales/Calls/Maturities	\$244,465,784
 NET SALES	 <u><u>\$97,721,525</u></u>

CORPORATE PORTFOLIO	
<i>Purchases/Transfers</i>	<i>Market Value</i>
AA	(\$4,999,000)
A	(\$66,392,890)
BBB	(\$24,017,830)
Total Purchases/Transfers	(\$95,409,720)
 <i>Sales/Calls/Maturities</i>	
AAA	\$20,799,009
AA	\$42,516,831
A	\$0
BBB	<u>35,788,771</u>
Total Sales/Calls/Maturities	\$99,104,611
 NET SALES	 <u><u>\$3,694,891</u></u>

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

REAL ESTATE REVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Brian C. Liikala, Administrator
Real Estate Division**

EXECUTIVE SUMMARY

- Total market value increased to \$4.9 billion in the third quarter, driven by \$107 million in net capital invested and \$133 million in appreciation. For the quarter, the real estate portfolio continued its recovery with a total return of 3.6%, its sixth straight positive quarterly return. For the trailing four quarters, Real Estate Division (RED) earned a 16.9% total return. This strong return is in spite of an economy that has lacked significant job growth, a key factor for all real estate property types.
- Valuation increases were broad-based for nearly all property types. Core investors are attracted to institutional grade properties where lenders are selectively providing financing. Operating income increases for these assets remain mixed, with apartments, hospitality, and medical office properties seeing the best improvement.
- The RED continued to make progress reducing the leverage ratio downward to 52% through deleveraging and an increase in net asset value.
- Unfunded capital commitments totaled \$419 million. The RED is also executing sales of non-strategic office buildings and apartment projects in secondary markets with limited upside potential at attractive prices.
- In the commercial mortgage-backed securities (CMBS) market, spreads for AAA rated classes were volatile in reaction to the slowdown in the economy. CMBS delinquencies stood at 8.5% but were offset by increasing loan resolutions. New issuance for CMBS in 2011 is expected to be revised downward to \$35 billion.
- Expect market transaction activity to be flat due to the contraction of the capital markets. Our real estate managers are being very selective for acquisitions, taking advantage of distressed opportunities from owners and lenders in markets that have potential for growth and long-term liquidity.
- Opportunities for investors lie in the ability to develop apartments in major urban markets, recapitalize troubled portfolios, consistently communicate with lenders for distressed assets, sell properties to REITs flush with capital, and exhibit patience in order to find properties in markets that will be first to recover.
- The NPI and Open-End Diversified Core Equity (ODCE) quarterly returns graph is attached.

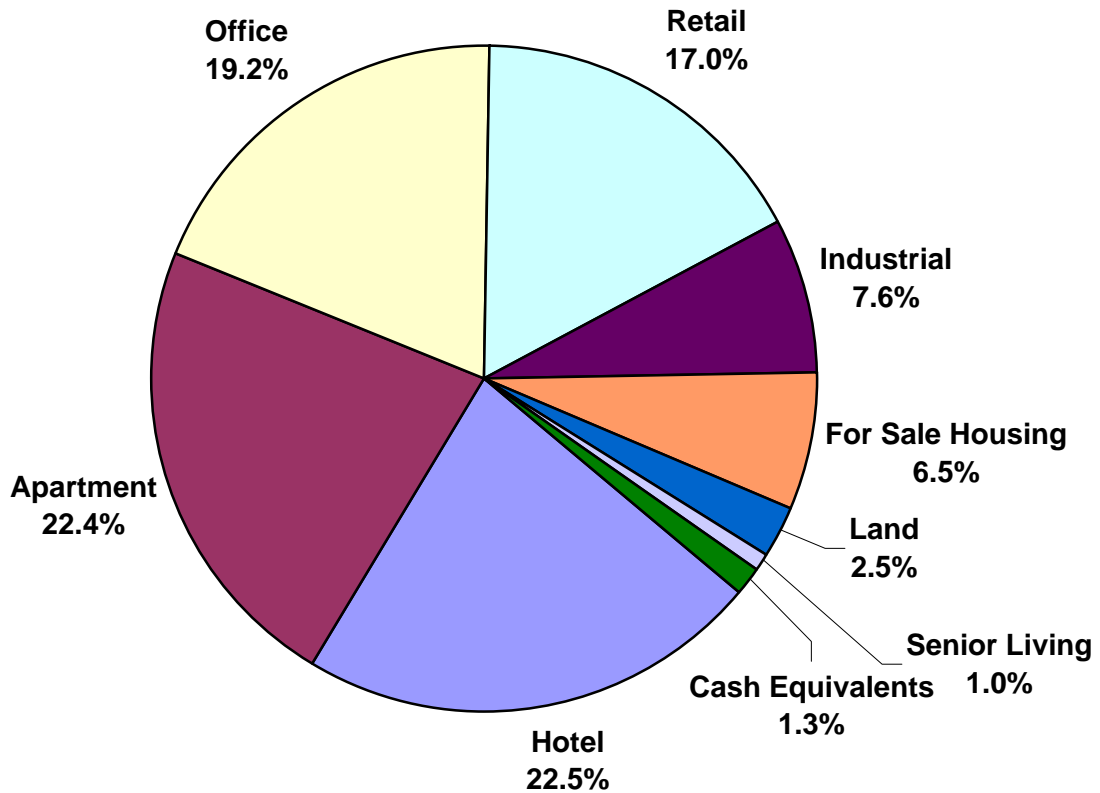


SMRS

Real Estate Holdings

By Property Type

9/30/11

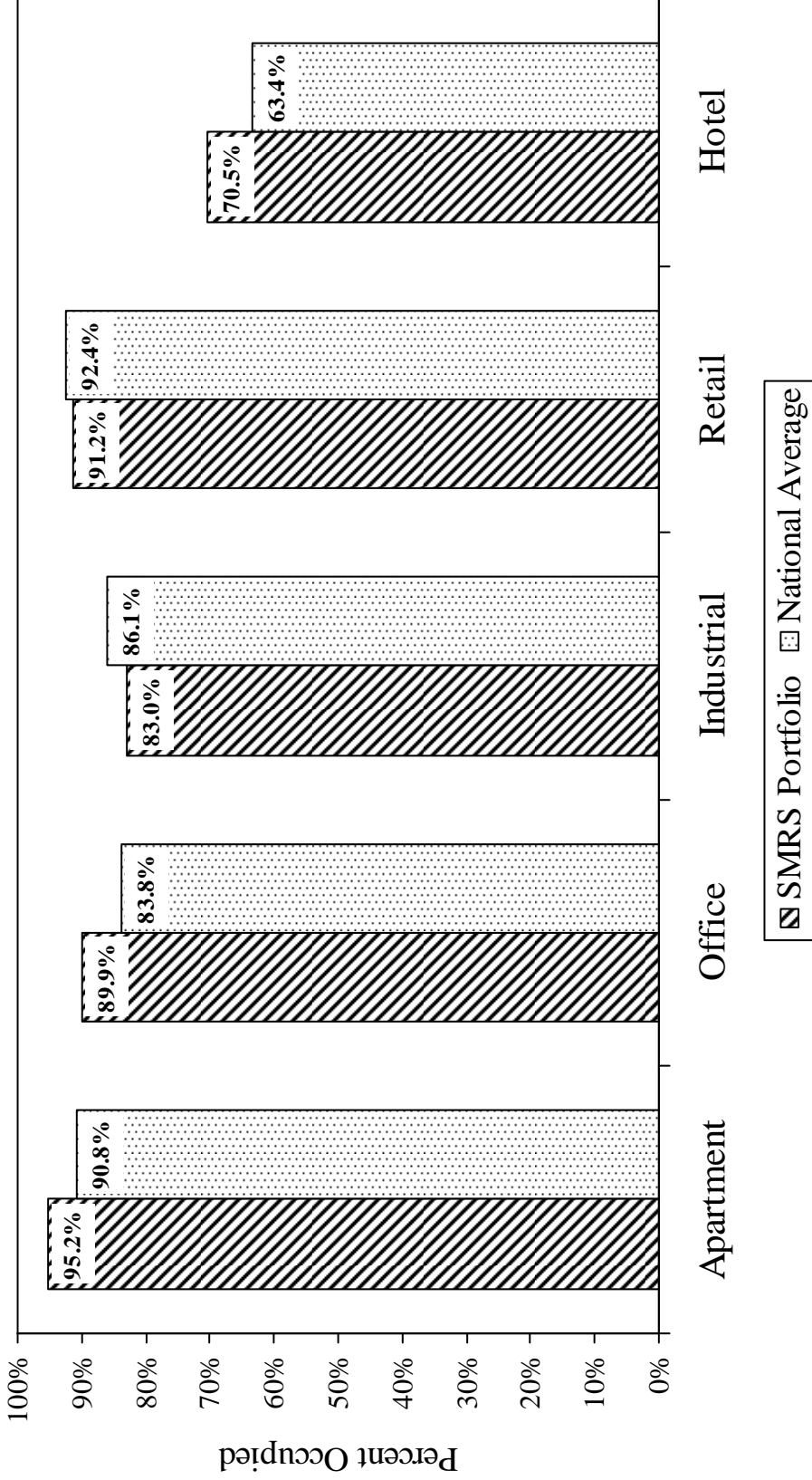


Market Value in Millions				
	9/30/2011		6/30/2011	
Hotel	\$1,121	22.5%	\$1,073	22.5%
Apartment	1,114	22.4%	1,105	23.2%
Office	955	19.2%	907	19.0%
Retail	844	17.0%	732	15.4%
Industrial	378	7.6%	376	7.9%
For Sale Housing	323	6.5%	311	6.5%
Land	125	2.5%	124	2.6%
Senior Living	52	1.0%	44	0.9%
Total Investments	\$4,912	98.7%	\$4,672	98.0%
Cash Equivalents	65	1.3%	93	2.0%
Total	\$4,977	100.0%	\$4,765	100.0%

REAL ESTATE DIVISION

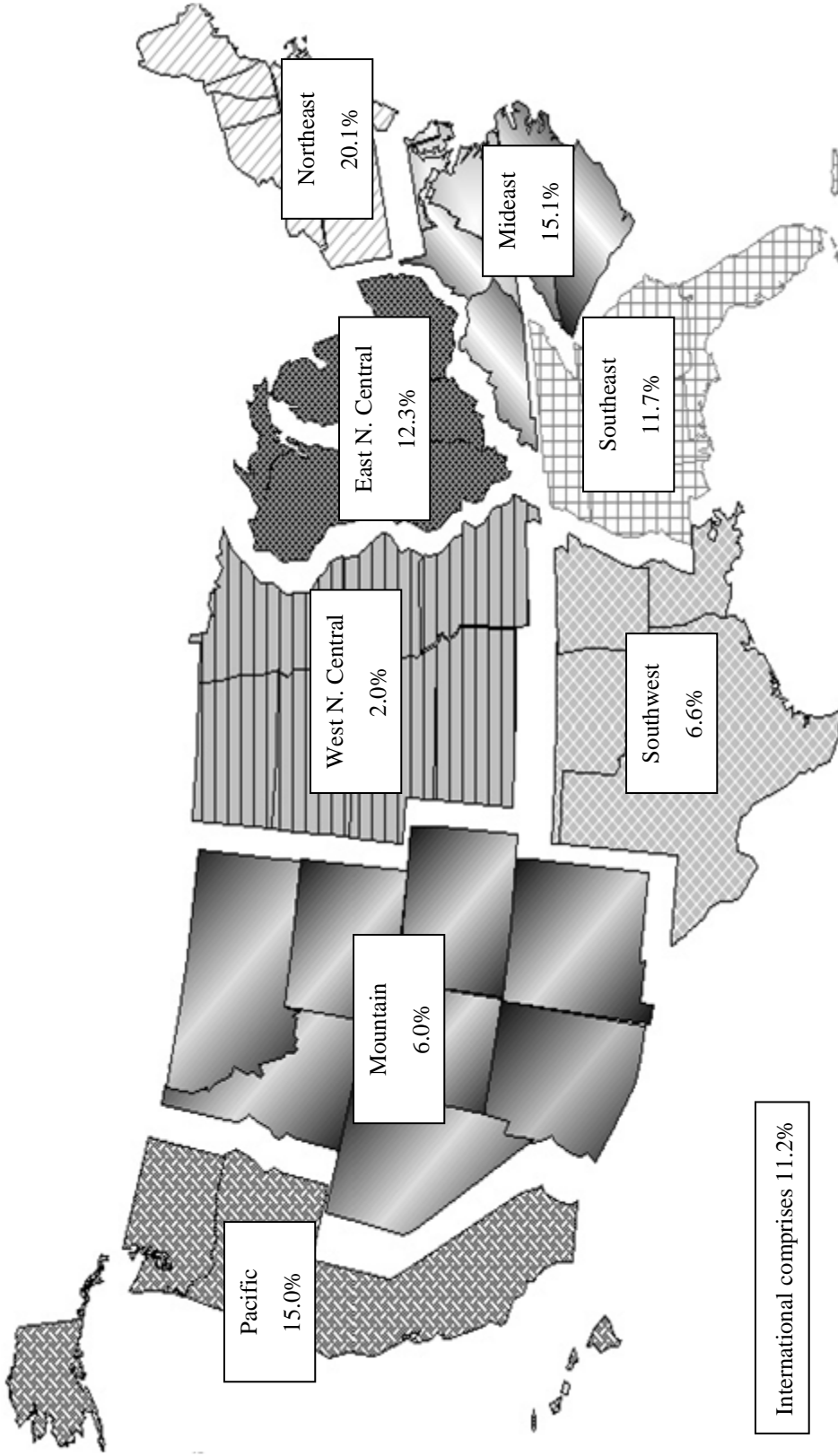
Occupancy by Property Type

September 30, 2011



National Average Source: U.S. Census Bureau (Apartment), CB Richard Ellis (Office & Industrial), Property & Portfolio Research (Retail), Smith Travel Research (Hotel)
 Excludes International Real Estate Investments

Real Estate By Region
Based on Net Market Value
(excludes cash & cash equivalents)
September 30, 2011



Geographic regions defined by NCREIF, whose property index composition is: Pacific 28.2%, Mountain 5.9%, West N. Central 2.0%, Southwest 10.7%, East N. Central 8.4%, Southeast 12.0%, Northeast 18.6%, Midwest 14.2%

REAL ESTATE DIVISION

September 30, 2011

Portfolio Leverage Summary

<u>Gross Market Value</u>	<u>Existing Debt *</u>	<u>Loan to Value %</u>
\$ 10,385,630,093	\$ 5,422,409,095	52.2%

Top Ten Advisors or Companies

<u>Advisor or Company</u>	<u>Net Market Value</u>
Clarion Partners (formerly ING Clarion)	\$ 861,724,204
MWT Holdings, LLC **	643,733,030
Edens & Avant	591,324,200
KBS Realty Advisors, Inc.	323,061,969
Principal Real Estate Investors	278,929,147
Kensington Realty Advisors, Inc.	260,269,036
Domain Capital Advisors, LLC	235,264,056
Winnington Capital Ltd.	178,382,875
Blackstone Real Estate Advisors	135,846,884
Morgan Stanley Real Estate	134,221,816
	<u>\$ 3,642,757,217</u>

Footnotes:

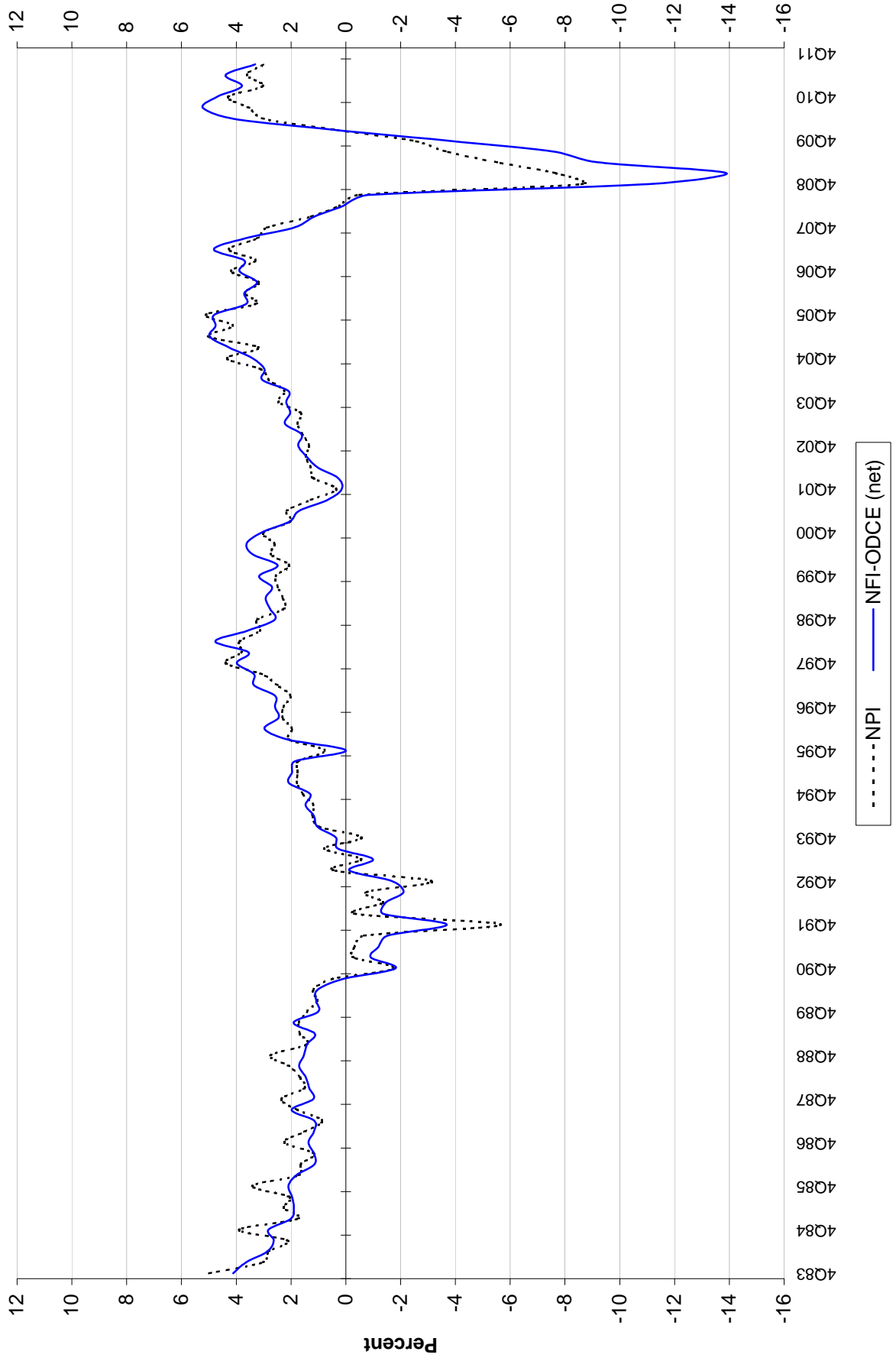
* Existing debt is comprised of property level debt.

** SMRS owns approximately 50% of Simpson Housing through MWT Holdings LLC

REAL ESTATE DIVISION
Net Market Values by Ownership Entity
September 30, 2011

	Net Market Value	Unfunded Commitment
801 Grand Avenue Capital, LLC	\$ 139,504,085	\$ 0
AGL Annuity Contract GVA 0016	115,643,301	0
Beacon Capital Strategic Partners IV, LP	22,423,921	500,000
Beacon Capital Strategic Partners V, LP	21,609,832	9,000,000
BlackRock Retail Opportunity Fund, LLC	13,248,138	15,000,000
Blackstone Real Estate Partners V, LP	54,130,144	2,346,929
Blackstone Real Estate Partners VI, LP	81,716,739	10,303,746
Capri Select Income II	6,249,561	0
Capri Urban Investors, LLC	13,991,387	5,699,100
CIM Fund III, LP	53,486,048	25,428,020
CIM Urban REIT, LLC	74,451,269	0
CIM VI (Urban REIT), LLC	803,311	24,071,250
City Lights Investments, LLC	118,804,521	6,500,000
Cobalt Industrial REIT	49,157,310	0
Cobalt Industrial REIT II	65,651,815	0
Coolidge Investment Partners, LP	95,625,000	0
CPI Capital Partners N.A., LP	13,668,119	0
Devon Real Estate Conversion Fund, LP	6,237,155	0
Domain GVA-1, LLC	209,580,990	0
Domain Hotel Properties, LLC	624,421,002	0
Dynamic Retail Trust	90,775,000	0
Edens & Avant Investments, LP	500,549,199	50,000,000
Federal Street, LLC	53,325,691	0
Gateway Capital R/E Fund II, LP	88,959,834	2,401,875
Great Lakes Property Group Trust	247,833,615	0
Invesco Mortgage Recovery Feeder Fund	51,667,492	6,468,123
JBC Opportunity Fund III, LP	23,188,085	5,888,092
JBCM Operating, LP	525,718	0
KBS/SM Fund III, LP	209,105,483	0
L & B Medical Properties Partners, LP	9,178,491	2,970,395
Landmark Real Estate Partners V, LP	36,266,485	7,500,000
LaSalle Asia Opportunity Fund II, LP	13,384,906	0
LaSalle Asia Opportunity Fund III, LP	50,064,011	25,000,000
Lion Industrial Trust	98,810,635	0
Lion Mexico Fund, LP	42,867,567	4,251,910
Lowe Hospitality Investment Partners	1,854,932	0
MERS Acquisitions, Ltd.	93,037,163	1,209,210
Morgan Stanley R/E Fund V - International	17,383,761	0
Morgan Stanley R/E Fund VI - International	37,300,242	0
Morgan Stanley R/E Fund V - U.S.	6,077,862	0
MSRE Mezzanine Partners LP	3,278,976	0
Morgan Stanley R/E Special Situations Fund III	70,180,974	0
MWT Holdings, LLC	643,733,031	2,500,000
Northpark-Land Associates, LLLP	25,699,938	0
Paladin Realty Brazil Investors III (USA), LP	17,104,181	22,171,346
Principal Separate Account	139,425,062	0
Rialto Real Estate Fund, LP	41,738,966	8,799,537
SM Brell II, LP	113,956,486	0
SM MGRA I, LLC	8,536,768	20,000,000
Stockbridge Real Estate Fund II-C, LP	22,730,114	4,514,249
Strategic LP	109,653,732	53,610,494
SWA Acquisitions, Ltd.	7,442,327	0
Trophy Property Development LP	178,382,875	15,000,000
Trophy Property Development II LP	0	50,000,000
True North High Yield Investment Fund II	21,929,452	28,070,548
Venture Center, LLC	43,078,031	0
Western National Realty Fund II, LP	12,206,942	9,578,578
	\$ 4,911,637,675	-
Short Term Investments and Other	65,314,661	-
Total Real Estate Division	\$ 4,976,952,336	\$ 418,783,402

NCREIF Quarterly Returns NPI and NFI-ODCE



Source: National Council of Real Estate Investment Fiduciaries (NCREIF).
 NPI = NCREIF Property Index
 NFI-ODCE = NCREIF Fund Index Open-end Diversified Core Equity

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

**INTERNATIONAL EQUITY
REVIEW**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Richard J. Holcomb, CFA, Administrator
Quantitative Analysis Division**

EXECUTIVE SUMMARY

Outlook

- International equities are expected to remain under pressure as recognition of system credit risk progresses and write-offs continue. Greece, Portugal, Italy, and Ireland debt problems are visible and exposures are being determined and disclosed. Structural reforms that reduce risk have been started, but harmonized accounting rules and regulation are illusive goals. Earnings growth in the next year is expected to be slower than U.S. growth. Growth expectations in emerging markets are still aggressively positive. Political instability remains an issue and is manifested in headlines and news photo coverage.
- Indices are at reasonable levels for progressive buying of exposure over the next 6 to 18 months. These additions will be primarily through external managers to continue diversification, and recognize a more volatile environment that allows for more return dispersion and reward for fundamental analysis techniques.
- Emerging markets are expected to discount weaker demand and economic concerns. Chinese industry consolidation combined with slowing remittances from working citizens in developed countries, makes past stronger levels of individual country internal demand and/or growth difficult. Political instability, lack of established and tested legal systems, regulation and possible nationalization of assets and changing tax regimes are continuing concerns. Individual company financing of receivables and other strategic changes will reduce many company returns.

Investment Plan

- Move toward desired higher asset allocation targets in a progressive series of investments with both passive and active managers. Take advantage of external manager capacity and established conduits for internal swap investments as market corrections occur. Move some assets from other categories if international equities become more attractive on a relative basis.
- Add new counterparties with strong credit ratings and unique capabilities for diversification and helpful information for decision making. Identify attractive niche investments to add to returns. Reduce SWAPs over the next year toward approximately \$1 billion.
- Add an all country x U.S. perspective with both developed and emerging areas included. Be aware of opportunistic situations with non-benchmark and active products that may be stressed by withdrawal activities if they occur. Accept reasonable tracking error risk to liquid products based on other benchmarks.
- Encourage managers to view U.S. equities as substitutes for international equities up to 20% of the funds as they did earlier with emerging markets holdings. This would also allow managers with global sector expertise to add to performance.
- Take advantage of the availability of attractive corporate spreads in Libor notes that reset quarterly, and continue to recognize improvements in pricing from earlier disruption levels. Prepare for derivative market changes by focusing on standardized structures and more frequent settlement requirements. Regulatory clarification for international local country index derivatives is not expected until the end of 2012.

Performance Review for International Investments

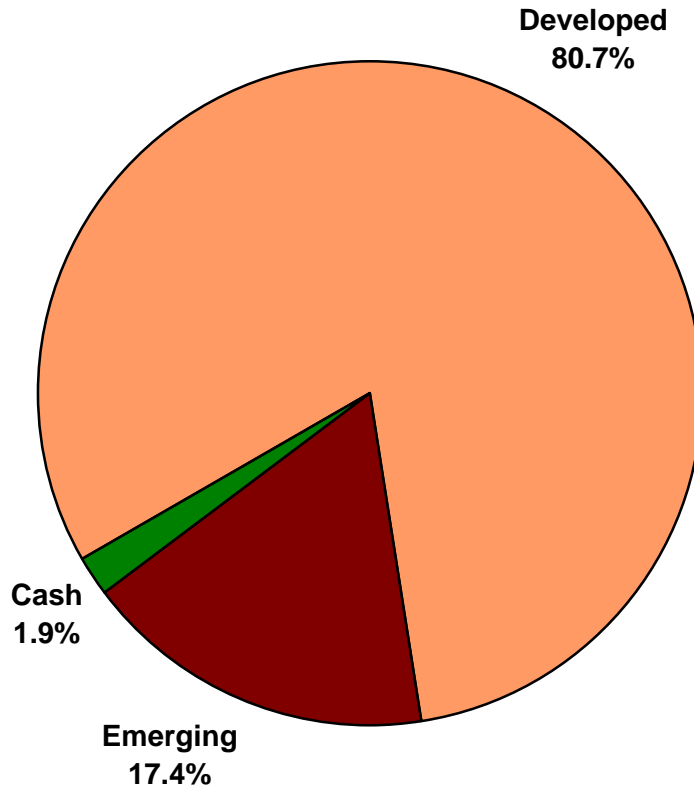
December 1, 2011

- Performance of the total international equity positions in developed markets versus our S&P/Citigroup BMI-EPAC 25% hedged benchmark was -18.66% versus -18.44% in the third quarter, resulting in a -22 basis point (bp) tracking error and +69 bp for the trailing year. Both variance numbers are within the normal expected range that recognizes a 250 typical bp possible variance. The three and five-year numbers continue to reflect the market decline in 2009 and the significant fixed income price disruption environment. The 75/25 approach to currency exposures is designed to reduce longer-term variance of international returns, and was changed at the beginning of 2011 from 50/50 in anticipation of potential long periods of U.S. dollar weakness and the advantage of closer comparisons with peer groups. The three and five-year tracking error numbers were +192 and +57 basis points, respectively.
- The largest component in passive exposure to international developed market returns is the internally managed stock plus fund. The \$1.8 billion of negotiated swap agreement contracts are combined with internally managed fixed income Libor note holdings and a Global Dividend Income fund. All counterparties used for swap agreements are investment grade. The net unrealized gain on the combined positions was \$114 million as of September 30, 2011. Recognized but unrealized gains from fixed income Libor notes “remarked at lower cost values” but expected to be held to maturity are now \$61 million. Other equity holdings completing total exposures to reduce benchmark variance were approximately \$63 million. Libor notes held are listed at the end of this report.
- A perspective on a total international equity with both developed and emerging markets included is coming. In the third quarter of 2011, the MSCI ACWI EX U.S. return with gross dividend exposure was -19.78% and the equivalent SMRS total exposure return was -19.67%. Emerging markets represent approximately 23% of that benchmark.
- Externally managed funds in all Non-U.S. equity categories totaled \$1.3 billion.
- External active international fund managers are compared to the S&P Developed BMI World X U.S. benchmark index in U.S. dollars, which had a return of -19.33% in the quarter and -8.64% for the trailing year. Manager returns are now quite diverse, and reflect the different investment strategies. External active managers have been given the authority to use a limited amount of emerging market exposure (i.e. for security substitution purposes), but those uses are considered individually and are constrained to no more than 20% of their portfolios.
- The Emerging Market Index returns were -22.56% for the quarter, and -16.15% for the trailing year. Passive and active exposure of \$1.0 billion to emerging markets play a significant diversification role, but returns were more negative in the third quarter. Seventy-three percent of exposure to Emerging Markets is passive.



SMRS

International Equity Holding By Category SMRS Versus Benchmark 9/30/11

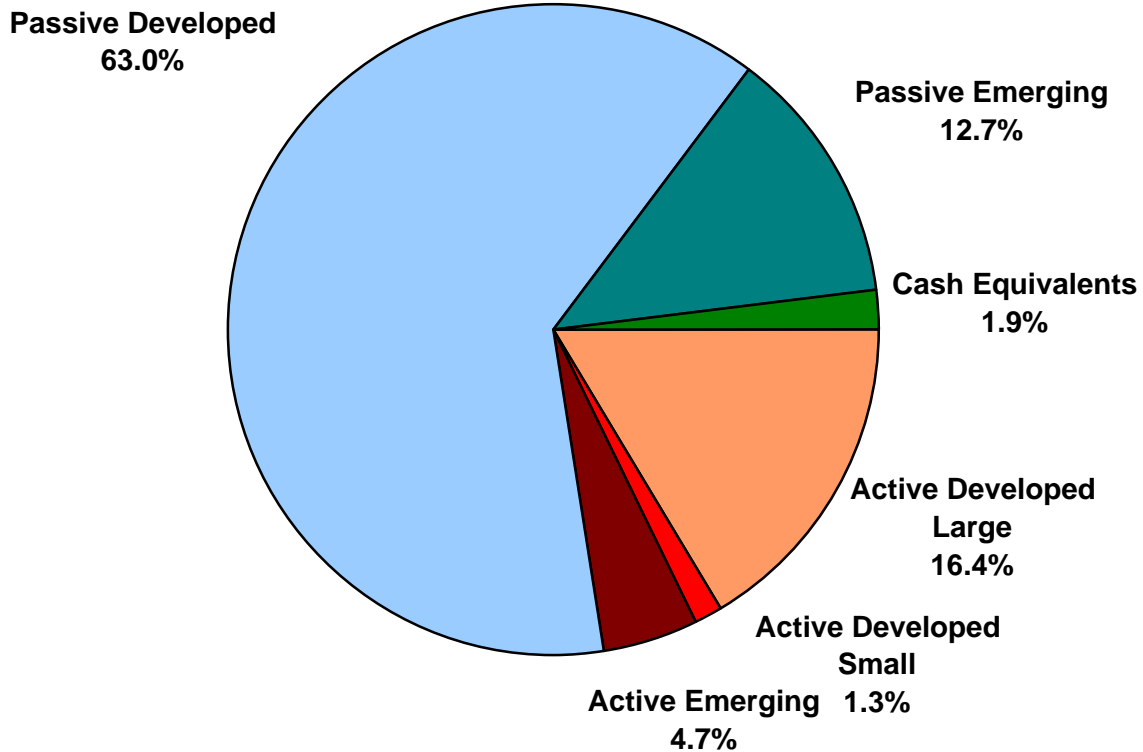


	<u>SMRS</u>	<u>Benchmark</u>
Developed	80.7%	79.5%
Emerging	17.4%	20.5%
Sub-Total	98.1%	100.0%
Cash	1.9%	0.0%
Total	100.0%	100.0%



SMRS

International Equity Holdings By Category 9/30/11



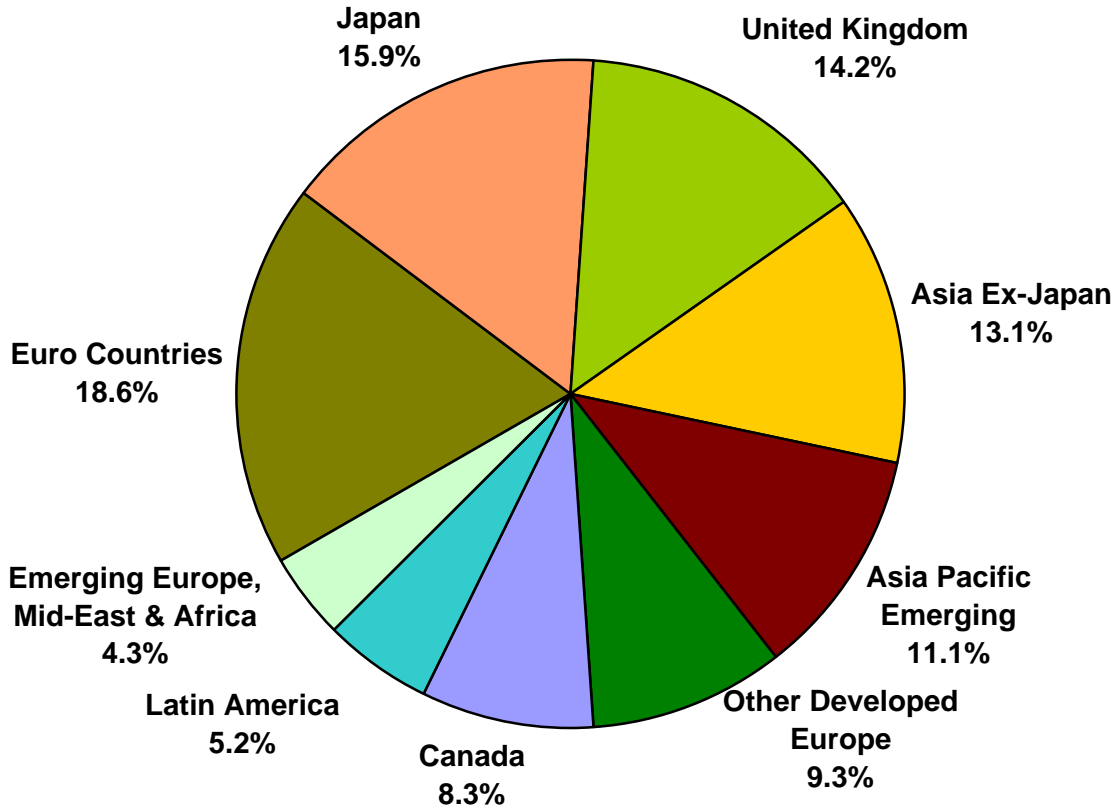
Market Value in Millions				
	9/30/2011		6/30/2011	
Active				
Developed Large	\$965	16.4%	\$1,146	15.6%
Developed Small	74	1.3%	93	1.3%
Emerging	277	4.7%	358	4.9%
Total Active Equity	1,316	22.4%	1,597	21.8%
Passive				
Developed	\$3,708	63.0%	\$4,653	63.5%
Emerging	749	12.7%	985	13.5%
Total Passive Equity	4,457	75.7%	5,638	77.0%
Total Investments	5,773	98.1%	7,235	98.8%
Cash Equivalents	\$112	1.9%	\$91	1.2%
Total International Equity	\$5,885	100.0%	\$7,326	100.0%



SMRS

S&P Global BMI - EX U.S.

9/30/11



Investments by Region

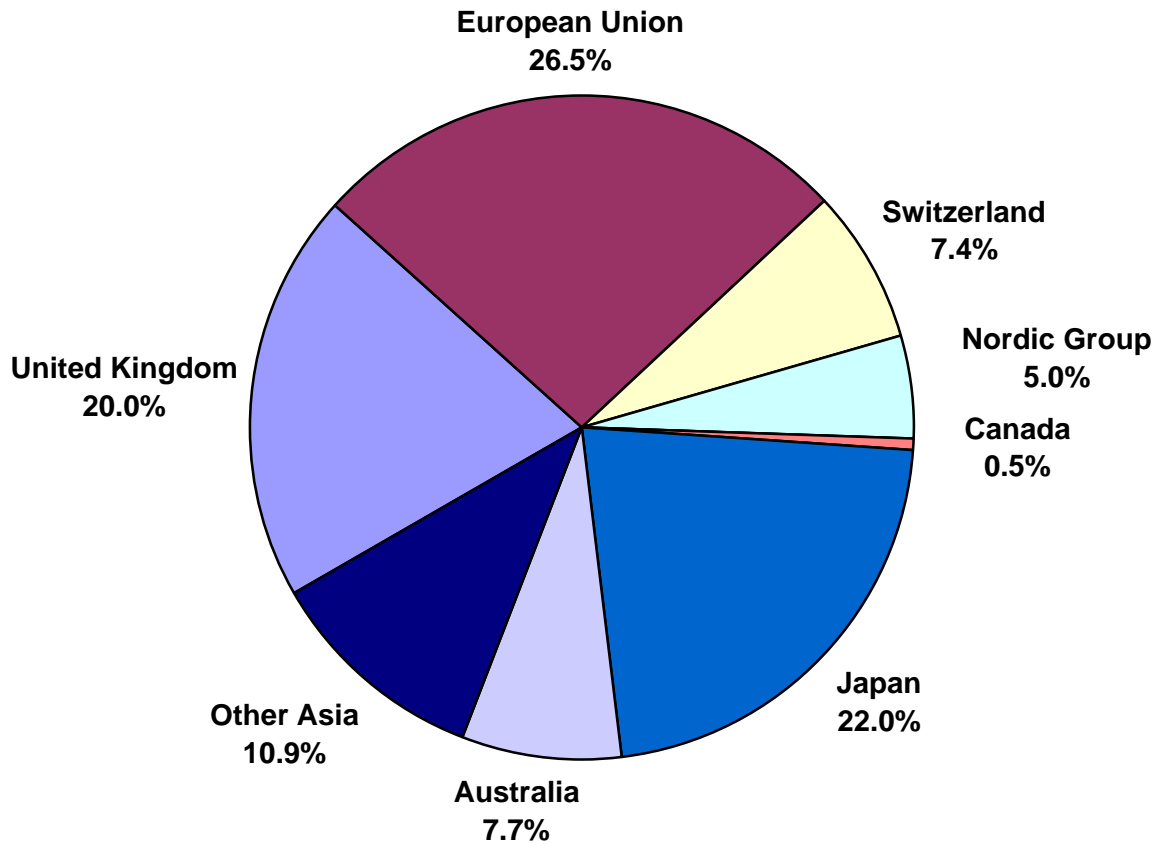
	<u>Benchmark</u>
Euro Countries	18.6%
Japan	15.9%
United Kingdom	14.2%
Asia Ex-Japan	13.1%
Asia Pacific Emerging	11.1%
Other Developed Europe	9.3%
Canada	8.3%
Latin America	5.2%
Emerging Europe, Mid-East & Africa	4.3%
Total	100.0%



SMRS

Developed International Passive Equity SMRS Versus BMI EPAC Benchmark

9/30/11



	<u>SMRS</u>	<u>Benchmark</u>
Europe		
United Kingdom	20.0%	20.2%
European Union	26.5%	26.3%
Switzerland	7.4%	7.6%
Nordic Group	5.0%	4.7%
Other Europe	0.0%	0.0%
Total Europe	58.9%	58.8%
Asia		
Japan	22.0%	22.6%
Australia	7.7%	8.0%
Other Asia	10.9%	10.6%
Total Asia	40.6%	41.2%
Canada	0.5%	0.0%
Total	100.0%	100.0%

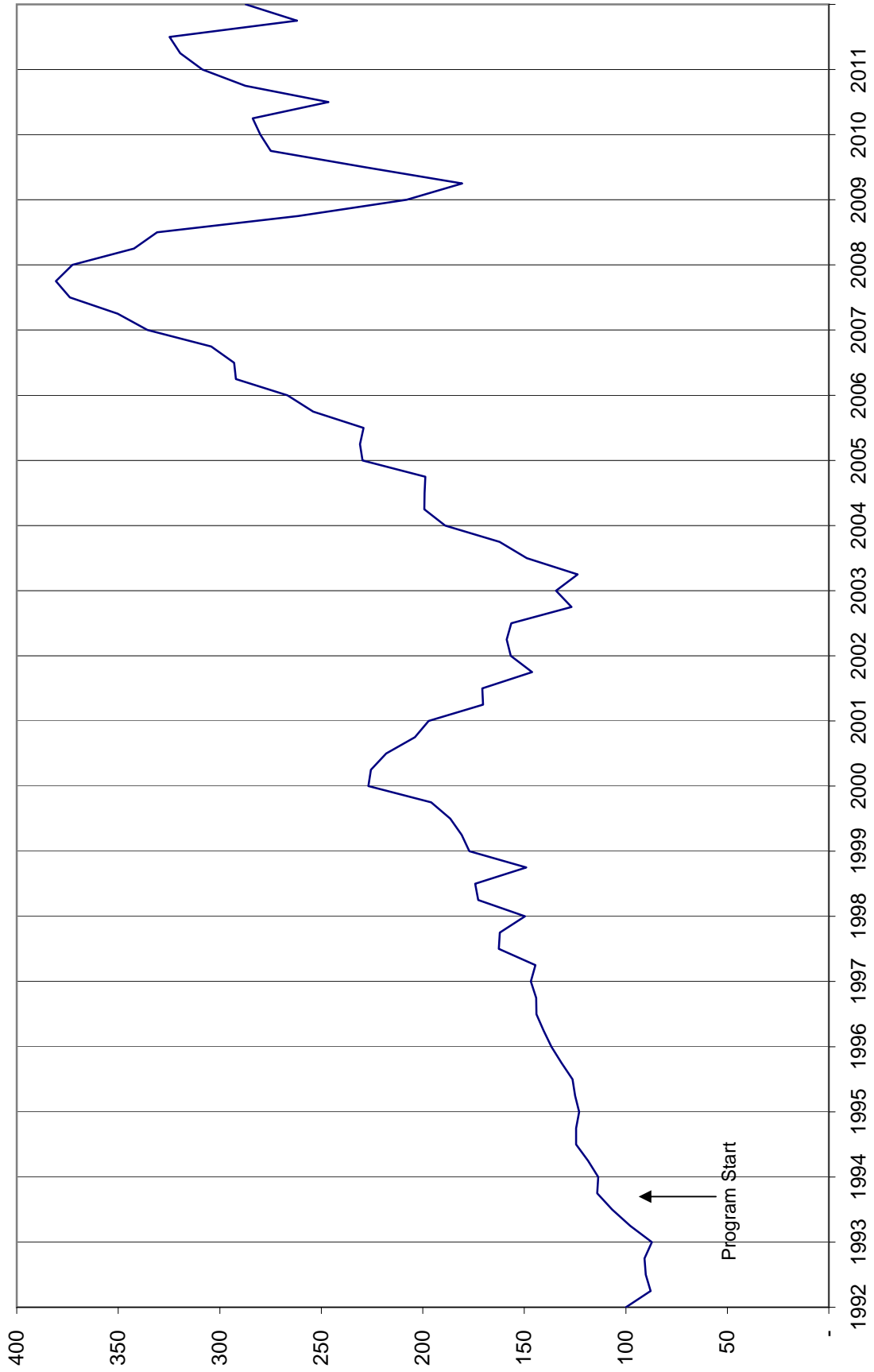
Total Developed International Passive Equity Investment: \$3,708 Million

SMRS NON-US EQUITIES

September 30, 011

	INDEXED		ACTIVE	TOTAL	Percent
Developed Markets - Large/Mid Capitalization					
Internal Stock Plus Combination	\$2,374,907,129			\$2,374,907,129	
SSgA PMI fund	425,369,383			425,369,383	
Vanguard Developed Markets Fund	673,659,890			673,659,890	
SSgA International Alpha Select BMI Fund			\$364,915,280	364,915,280	
Wellington International Research Equity Fund			362,383,287	362,383,287	
PIMCO Stock Plus			<u>237,120,756</u>	<u>237,120,756</u>	
Sub-Total Developed Large/Mid Cap	\$3,473,936,402		\$964,419,323	\$4,438,355,725	75.4%
Developed Markets - Small Capitalization					
SSgA EMI Fund	\$346,381,979			\$346,381,979	
SSgA International Small Cap Alpha Fund			\$74,010,538	74,010,538	
Sub-Total Developed Small Cap				\$420,392,517	7.1%
Total Developed Markets				\$4,858,748,242	82.5%
Emerging Markets - All Capitalization					
Vanguard Emerging Mkt Stock Index Fund	\$749,098,854			\$749,098,854	
LACM Emerging Market Fund			\$51,238,067	51,238,067	
PIMCO Emerging Market Fund			\$226,055,283	<u>226,055,283</u>	
Total Emerging				\$1,026,392,204	17.5%
TOTAL	\$4,569,417,235		\$1,315,723,211	\$5,885,140,446	100%
Percent	77.6%		22.4%		

BMI EPAC Net Dividend Return Index (USD)



SMRS SWAP AGREEMENTS

International Equity Exposure

Maturity Date	Trade Date	Notional	Countries	Indices	Local Currency FX Expos.	U.S. Dollar No FX Expos.
10/07/2011	10/07/2008	31,778,108	4	4	0%	100%
10/07/2011	08/20/2010	43,000,000	4	4	100%	0%
10/07/2011	09/24/2010	70,000,000	2	2	100%	0%
10/07/2011	10/07/2008	65,000,000	6	6	100%	0%
10/21/2011	10/18/2010	80,000,000	6	6	100%	0%
10/21/2011	10/21/2008	68,000,000	4	4	50%	50%
10/21/2011	10/20/2010	10,001,325	1	1	100%	0%
10/31/2011	11/01/2008	112,490,331	5	5	100%	0%
10/31/2011	11/05/2010	54,150,538	4	4	100%	0%
12/01/2011	11/24/2008	150,000,000	9	9	100%	0%
12/14/2011	12/16/2008	150,000,000	9	9	50%	50%
12/14/2011	12/17/2010	50,000,000	5	5	0%	100%
12/16/2011	12/29/2008	100,000,000	13	13	100%	0%
01/18/2012	01/18/2011	52,647,963	2	2	0%	100%
01/18/2012	01/18/2011	103,000,000	7	7	32%	68%
02/15/2012	02/15/2011	90,000,000	6	6	33%	67%
02/15/2012	02/15/2011	40,000,000	2	2	0%	100%
03/12/2012	03/10/2009	75,000,000	9	9	0%	100%
03/12/2012	03/11/2011	100,000,000	10	10	0%	100%
03/26/2012	03/25/2009	85,000,000	10	10	100%	0%
03/26/2012	03/27/2009	10,000,744	1	1	100%	0%
03/30/2012	04/01/2009	29,118,502	4	4	100%	0%
04/16/2012	04/16/2009	60,000,000	9	9	100%	0%
06/25/2012	06/23/2011	100,000,000	6	6	100%	0%
07/13/2012	07/13/2011	90,003,758	2	2	100%	0%

	Total	1,819,191,268
Notional maturing during 2011		984,420,302 54%

**INDEX REFERENCE SUMMARY
PRICE RETURNS W/O DIVIDENDS**

Index	Description	Region	9/30/11	MTD	09/31/11	QTD	06/30/11	YTD	12/31/10	% Chg High - Since 12/31/99	Level	Date	% Chg Low - Since 12/31/99	Level	Date
US															
DJIA		USA	10,913.38	-6.03%	11,613.53	-12.09%	12,414.34	-5.74%	11,577.51	-23.13%	14,198.10	10/11/07	68.65%	6,469.95	3/6/09
S&P 500		USA	1,131.42	-7.18%	1,218.89	-14.33%	1,320.64	-10.04%	1,257.64	-28.21%	1,576.09	10/11/07	69.68%	666.79	3/6/09
S&P Midcap		USA	781.26	-10.71%	875.00	-20.17%	978.64	-13.89%	907.25	-23.30%	1,018.85	5/2/11	110.68%	370.83	10/10/02
S&P Small		USA	355.39	-10.41%	396.70	-20.08%	444.69	-14.51%	415.73	-23.15%	462.42	7/17/11	109.50%	169.84	10/10/02
NASDAQ Composite		USA	2,415.40	-6.36%	2,579.46	-12.91%	2,773.52	-8.95%	2,652.87	-52.94%	5,132.62	3/10/00	117.90%	1,108.49	10/10/02
NASDAQ 100 (QQQQ)		USA	52.49	-4.67%	55.06	-7.99%	57.05	-3.62%	54.46	-56.44%	120.50	3/24/00	165.64%	19.76	10/8/02
Russell 1000		USA	623.45	-7.61%	674.79	-15.12%	734.48	-10.54%	696.90	-27.39%	858.63	10/11/07	72.10%	362.25	3/6/09
Russell 2000		USA	644.16	-11.37%	726.81	-22.15%	827.43	-17.80%	783.65	-25.84%	868.57	5/2/11	98.26%	324.90	10/10/02
Composite Indices - International															
BMI EPAC (USD)		Non-US Dev.	200.90	-10.28%	223.92	-19.81%	250.52	-17.10%	242.33	-40.76%	339.11	10/31/07	79.62%	111.85	3/12/03
PMI EPAC (USD)		Non-US Dev.	194.68	-10.00%	216.30	-19.73%	242.53	-17.21%	235.15	-41.11%	330.58	10/31/07	70.46%	114.21	3/12/03
EMI EPAC (USD)		Non-US Dev.	226.62	-11.80%	256.94	-20.26%	284.21	-16.55%	271.57	-37.45%	362.32	7/16/07	127.14%	99.77	10/10/02
EAFE I-Share (USD)		Non-US Dev.	47.78	-10.81%	53.57	-20.55%	60.14	-17.93%	58.22	--	N/A	--	--	N/A	--
EAFE		Non-US Dev.	1,373.33	-9.86%	1,523.58	-19.60%	1,708.08	-17.18%	1,658.30	-42.75%	2,398.71	11/1/07	68.86%	813.30	3/13/03
BMI EPAC (Local)		Non-US Dev.	156.32	-5.01%	164.57	-16.36%	186.90	-17.51%	189.52	-43.59%	277.12	7/13/07	42.03%	110.06	3/12/03
MSCI Emerging (USD)		Emerging	341.40	-14.56%	399.67	-22.56%	440.84	-21.88%	437.02	-27.88%	473.35	10/29/07	354.47%	75.12	9/21/01
FTSE RAFI Emerging (USD Emerging)		Emerging	5,549.79	-14.58%	6,497.41	-23.31%	7,236.81	-23.68%	7,271.57	-30.02%	7,930.70	11/1/07	470.66%	972.52	10/3/01
Europe															
CAC-40		France	2,981.96	-8.44%	3,256.76	-25.12%	3,982.21	-21.63%	3,804.78	-57.06%	6,944.77	9/4/00	24.19%	2,401.15	3/12/03
DAX-30		Germany	5,502.02	-4.89%	5,784.85	-25.41%	7,376.24	-20.42%	6,914.19	-32.50%	8,151.57	7/13/07	151.38%	2,188.75	3/12/03
EuroStoxx		Europe	2,179.66	-5.32%	2,302.08	-23.48%	2,848.53	-21.95%	2,792.82	-60.53%	5,522.42	3/7/00	23.46%	1,765.49	3/9/09
UK															
FTSE-100		U.K.	5,128.48	-4.93%	5,384.53	-13.74%	5,945.71	-13.08%	5,899.94	-26.00%	6,930.20	1/4/00	56.48%	3,277.50	3/12/03
Pacific															
TOPIX		Japan	761.17	-1.22%	770.60	-10.37%	849.22	-15.31%	898.80	-58.27%	1,823.89	2/27/07	8.98%	698.46	3/12/09
KOSPI 200		S. Korea	230.41	-4.85%	242.16	-16.27%	275.17	-15.04%	271.19	-22.03%	295.51	5/3/11	304.09%	57.02	9/27/01
Currencies															
Euro (\$ / Euro)		Europe	1.3387	-7.10%	1.4410	-7.76%	1.4513	0.02%	1.3384						
Pound (\$ / Pound)		U.K.	1.5584	-4.25%	1.6275	-3.01%	1.6068	-0.18%	1.5612						
Yen (Yen / \$)		Japan	77.06	-0.70%	76.52	4.54%	80.56	5.27%	81.12						
US Dollar (LC JPM / \$)		USA	82.01	5.71%	77.58	5.66%	77.60	1.55%	80.76						
FX - Major Curr. Nominal (F USA)		USA	71.17	3.04%	69.07	2.29%	69.58	-3.55%	73.79						

Note: Positive returns show local currency strength and USD weakness.

Note: Based on J.P. Morgan Index (US dollar vs. a trade weighted basket of non-US developed market currencies)

SUMMARY OF PASSIVE INTERNATIONAL MANAGERS

9/30/2011

Valuation Report

	<u>Country</u>	<u>Total Cost</u>	<u>% of Total</u>	<u>Current Value</u>	<u>% of Total</u>	<u>Unrealized G/L</u>	<u>% Change</u>
SSgA EMI Fund	Europe Pacific	\$140,964,847 <u>105,065,661</u>	10.01% 7.46%	\$202,357,040 <u>144,024,940</u>	13.91% 9.90%	\$61,392,192 <u>38,959,279</u>	43.55% 37.08%
Small-Cap Sub-Total		\$246,030,508		\$346,381,979		\$100,351,471	40.79%
SSgA PMI Fund	EPAC	\$386,089,943	27.43%	\$425,369,383	29.25%	\$39,279,440	10.17%
Vanguard Dev. Mkts Fund	EAFE	765,245,438	54.36%	673,659,890	46.32%	(\$91,585,548)	-11.97%
Vanguard Dev. Mkts. ETF	EAFE	<u>10,390,760</u>	0.74%	<u>9,051,000</u>	0.62%	<u>(\$1,339,760)</u>	-12.89%
Large-Cap Sub-Total		\$1,161,726,141		\$1,108,080,273		(\$53,645,868)	
External Passive Total		\$1,407,756,649	100.00%	\$1,454,462,252	100.00%	\$46,705,603	3.32%

INTERNATIONAL COMBINED SWAP AGREEMENT POSITION
9/30/2011

<u>COUNTRY</u>	<u>STOCK INDEX</u>	<u>AVERAGE SET LEVEL</u>	<u>NOTIONAL AMOUNT</u>	<u>% OF TOTAL</u>	<u>INDEX 9/30/2011</u>	<u>CURRENT NOTIONAL</u>	<u>% OF TOTAL</u>	<u>UNREALIZED GAIN/LOSS</u>	<u>% CHANGE</u>
EUROPE									
United Kingdom	FTSE 100 INDEX	4,618.18	\$14,616,514	0.80%	5,128.48	\$15,207,846	0.80%	\$591,332	4.05%
United Kingdom	FTSE 100 TOTAL RETURN INDEX	3,287.27	323,999,306	17.81%	3,446.56	341,875,798	17.99%	17,876,492	5.52%
United Kingdom	FTSE 250 INDEX		-	0.00%	9,819.38	-	0.00%	-	
Germany	DAX INDEX	5,985.25	156,189,633	8.59%	5,502.02	142,641,347	7.51%	(13,548,286)	-8.67%
Germany	DAX MID-CAP INDEX		-	0.00%	8,341.08	-	0.00%	-	
France	CAC 40 INDEX	3,593.08	33,628,163	1.85%	2,981.96	28,668,245	1.51%	(4,959,918)	-14.75%
France	CAC 40 TOTAL RETURN INDEX	6,601.28	139,006,952	7.64%	6,116.31	127,320,928	6.70%	(11,686,024)	-8.41%
France	CAC MID 100 INDEX		-	0.00%	5,838.58	-	0.00%	-	
Switzerland	SWISS MARKET INDEX		-	0.00%	5,531.74	-	0.00%	-	
Switzerland	SWISS MARKET TOTAL RETURN INDEX	8,288.30	114,392,297	6.29%	9,002.57	139,285,906	7.33%	24,893,609	21.76%
Switzerland	SPI MEDIUM COMPANIES INDEX		-	0.00%	6,110.75	-	0.00%	-	
Netherlands	AMSTERDAM EXCHANGES INDEX		-	0.00%	280.18	-	0.00%	-	
Netherlands	AMSTERDAM EXCHANGES TOTAL RETURN INDEX	605.21	48,088,171	2.64%	738.26	57,994,158	3.05%	9,905,987	20.60%
Netherlands	AMSTERDAM MIDKAP INDEX		-	0.00%	465.94	-	0.00%	-	
Spain	IBEX 35 INDEX	8,270.67	17,000,000	0.93%	8,546.60	18,100,001	0.95%	1,100,001	6.47%
Spain	IBEX 35 TOTAL RETURN INDEX	14,913.56	33,000,000	1.81%	16,823.50	36,901,338	1.94%	3,901,338	11.82%
Portugal	PORTUGAL PSI-20 INDEX		-	0.00%	5,891.06	-	0.00%	-	
Italy	MILAN MIB30 INDEX	19,301.00	12,000,000	0.66%	14,836.33	9,109,053	0.48%	(2,890,947)	-24.09%
Italy	MILAN MIB30 TOTAL RETURN INDEX	25,695.67	29,997,500	1.65%	23,196.08	26,878,956	1.41%	(3,118,544)	-10.40%
Italy	MILAN MID-CAP INDEX		-	0.00%	910.17	-	0.00%	-	
Sweden	OMX (STOCKHOLM) INDEX		-	0.00%	115.17	-	0.00%	-	
Sweden	OMX (STOCKHOLM) TOTAL RETURN INDEX	82.65	34,633,034	1.90%	2,503.19	53,594,852	2.82%	18,961,818	54.75%
Ireland	IRISH OVERALL INDEX		-	0.00%	481.85	-	0.00%	-	
Ireland	IRISH OVERALL TOTAL RETURN INDEX	370.32	10,002,500	0.55%	2,131.28	13,115,579	0.69%	3,113,079	31.12%
Belgium	BEL20 INDEX	5,103.05	32,000,000	1.76%	41.62	28,210,549	1.48%	(3,789,451)	-11.84%
Finland	FOX 25 INDEX	53.14	21,000,000	1.15%	350.34	15,666,452	0.82%	(5,333,548)	-25.40%
Denmark	KFX INDEX	366.53	17,000,000	0.93%	322.92	16,238,069	0.85%	(761,931)	-4.48%
Norway	OBX STOCK TOTAL RETURN INDEX	259.07	15,000,000	0.82%	258.64	20,184,783	1.06%	5,184,783	34.57%
Norway	OBX STOCK INDEX		-	0.00%	328.98	-	0.00%	-	
Greece	FTSE/ASE 20 INDEX	758.80	5,000,000	0.27%	328.98	2,082,401	0.11%	(2,917,599)	-58.35%
Austria	AUSTRIAN TRADED ATX INDEX	2,719.89	4,000,000	0.22%	1,947.85	2,739,063	0.14%	(1,260,937)	-31.52%

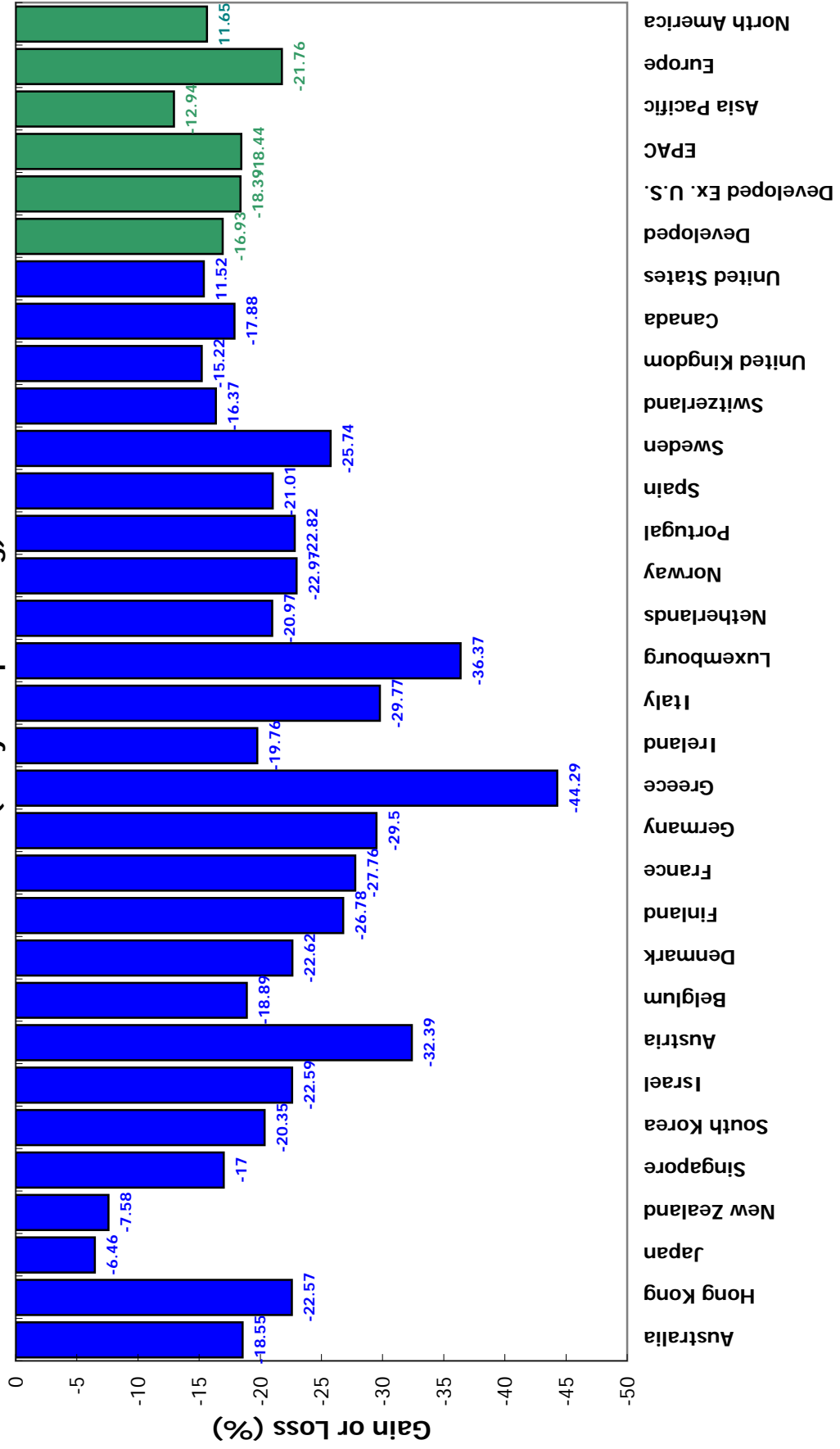
**INTERNATIONAL COMBINED SWAP AGREEMENT POSITION
9/30/2011**

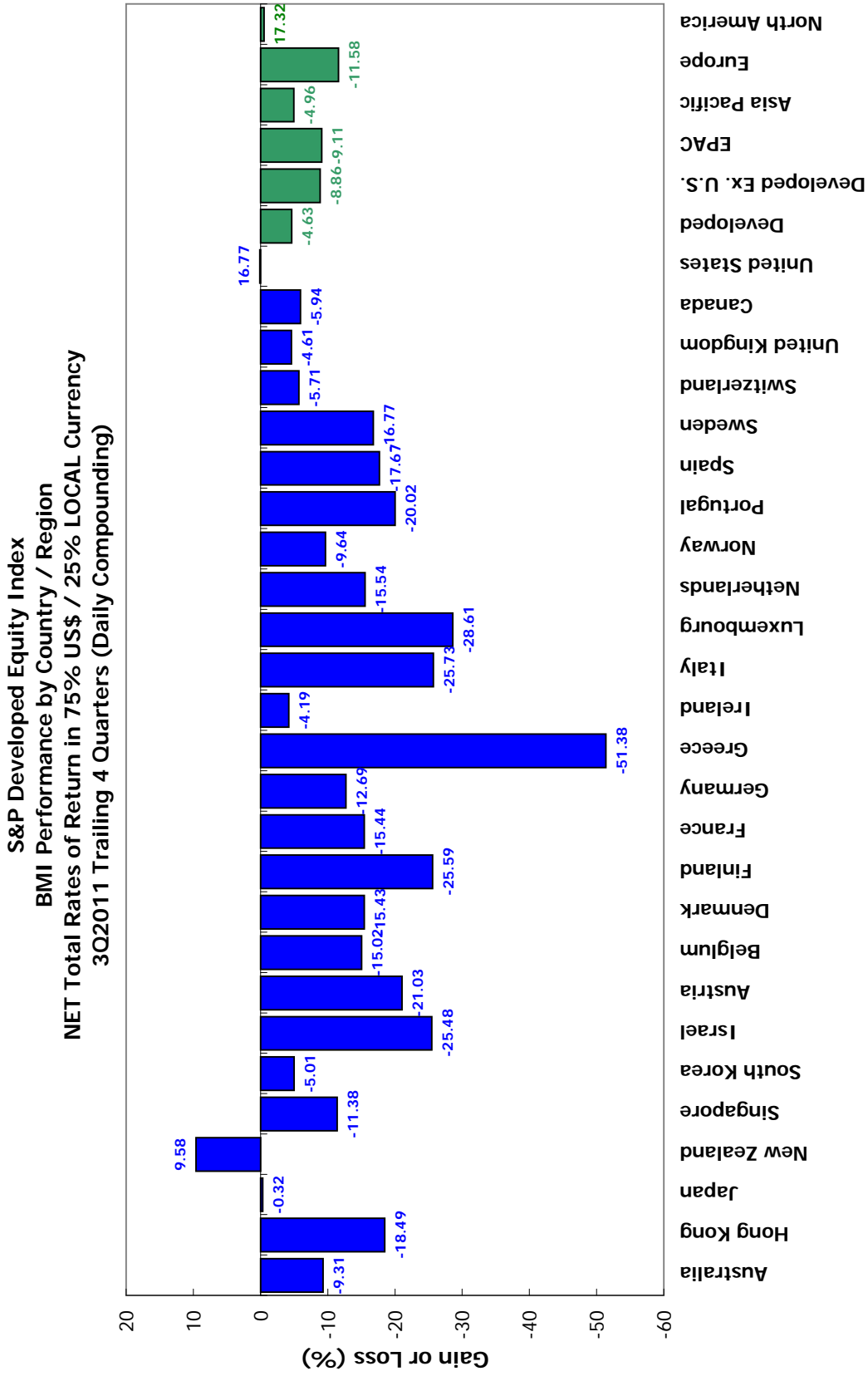
<u>COUNTRY</u>	<u>STOCK INDEX</u>	<u>AVERAGE SET LEVEL</u>	<u>NOTIONAL AMOUNT</u>	<u>% OF TOTAL</u>	<u>INDEX 9/30/2011</u>	<u>CURRENT NOTIONAL</u>	<u>% OF TOTAL</u>	<u>UNREALIZED GAIN/LOSS</u>	<u>% CHANGE</u>
Japan	TOPIX INDEX (TOKYO)	976.10	53,816,914	2.96%	761.17	51,598,306	2.72%	(2,218,608)	-4.12%
Japan	TOPIX TOTAL RETURN INDEX (TOKYO)	1,057.51	350,019,714	19.24%	976.39	374,200,505	19.69%	24,180,791	6.91%
Japan	TSE2 TOPIX 2 ND SECT INDEX		-		2,115.56	-	0.00%	-	
Hong Kong	HANG SENG STOCK INDEX	18,963.05	34,647,963	1.90%	17,592.41	32,082,946	1.69%	(2,565,017)	-7.40%
Hong Kong	HANG SENG TOTAL RETURN STOCK INDEX	43,921.50	49,000,000	2.69%	37,866.63	42,193,779	2.22%	(6,806,221)	-13.89%
Australia	ASX 200 INDEX	29,502.81	128,000,000	7.04%	4,008.60	-	0.00%	-	
Australia	ASX 200 TOTAL RETURN INDEX	156.45	5,000,000	0.27%	267.34	147,505,069	7.76%	19,505,069	15.24%
New Zealand	NZSE 10 INDEX	1,485.75	6,000,000	0.33%	2,675.16	8,543,953	0.45%	3,543,953	70.88%
Singapore	STI INDEX	3,760.59	23,151,863	1.27%	3,473.28	10,803,271	0.57%	4,803,271	80.05%
Singapore	STI TOTAL RETURN INDEX	233.37	99,000,000	5.44%	230.41	20,704,374	1.09%	(2,447,490)	-10.57%
Korea	KOREA KOSPI 200 INDEX	1,117.90	10,000,744	0.55%	1,489.31	100,696,659	5.30%	1,696,659	1.71%
Canada	TX60AR INDEX					15,842,811	0.83%	5,842,067	0.32%
	TOTAL COMPOSITE		\$1,819,191,268	100.00%		\$1,899,986,997	100.00%	\$80,795,729	4.44%
	LIBOR NOTES		\$1,880,722,805			\$1,914,117,716		\$33,394,911	1.78%
	CURRENT NET MARKET VALUE:							\$114,190,640	

Notes: 1. Notional amounts include currency change impacts, and changes related to dividend reinvestment in some agreements
2. Current net market value excludes cash balances related to interest on continuing swaps of \$112.2 Million as of 9/30/2011
3. Information on completed swaps: (177 completed)

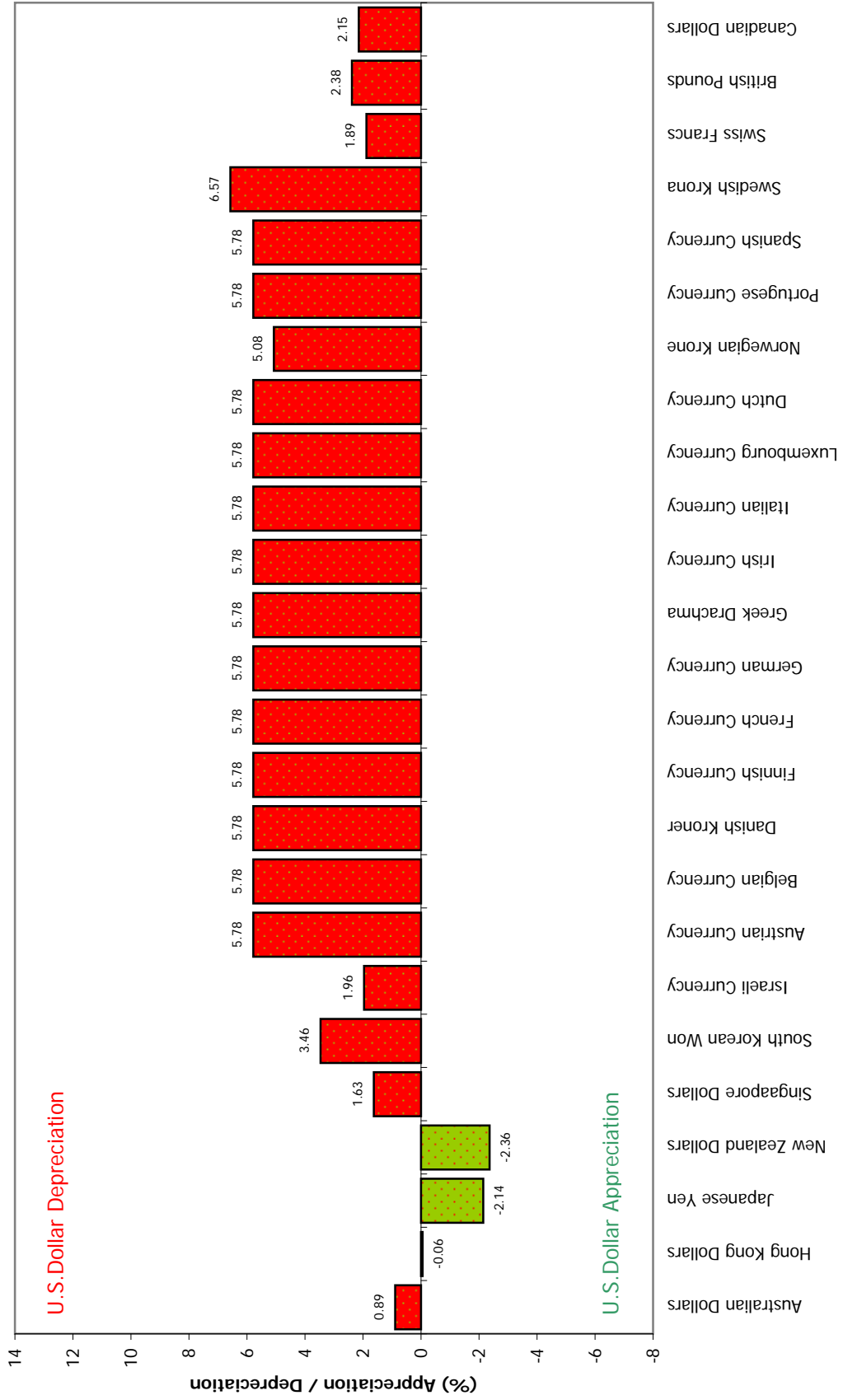
	<u>TOTAL</u>
Gains/Losses on Equity Swap Agreements	\$2,237,283,329.93
Net Interest received on Fixed Income	785,279,462.31
Gains/Losses on Dedicated Fixed Income	(15,406,162.28)
Total realized Gain/Losses and Net Interest	\$3,007,156,629.96

**S&P Developed Equity Index
 BMI Performance by Country / Region
 NET Total Rates of Return in 75% US\$ / 25% LOCAL Currency
 3Q2011 (Daily Compounding)**

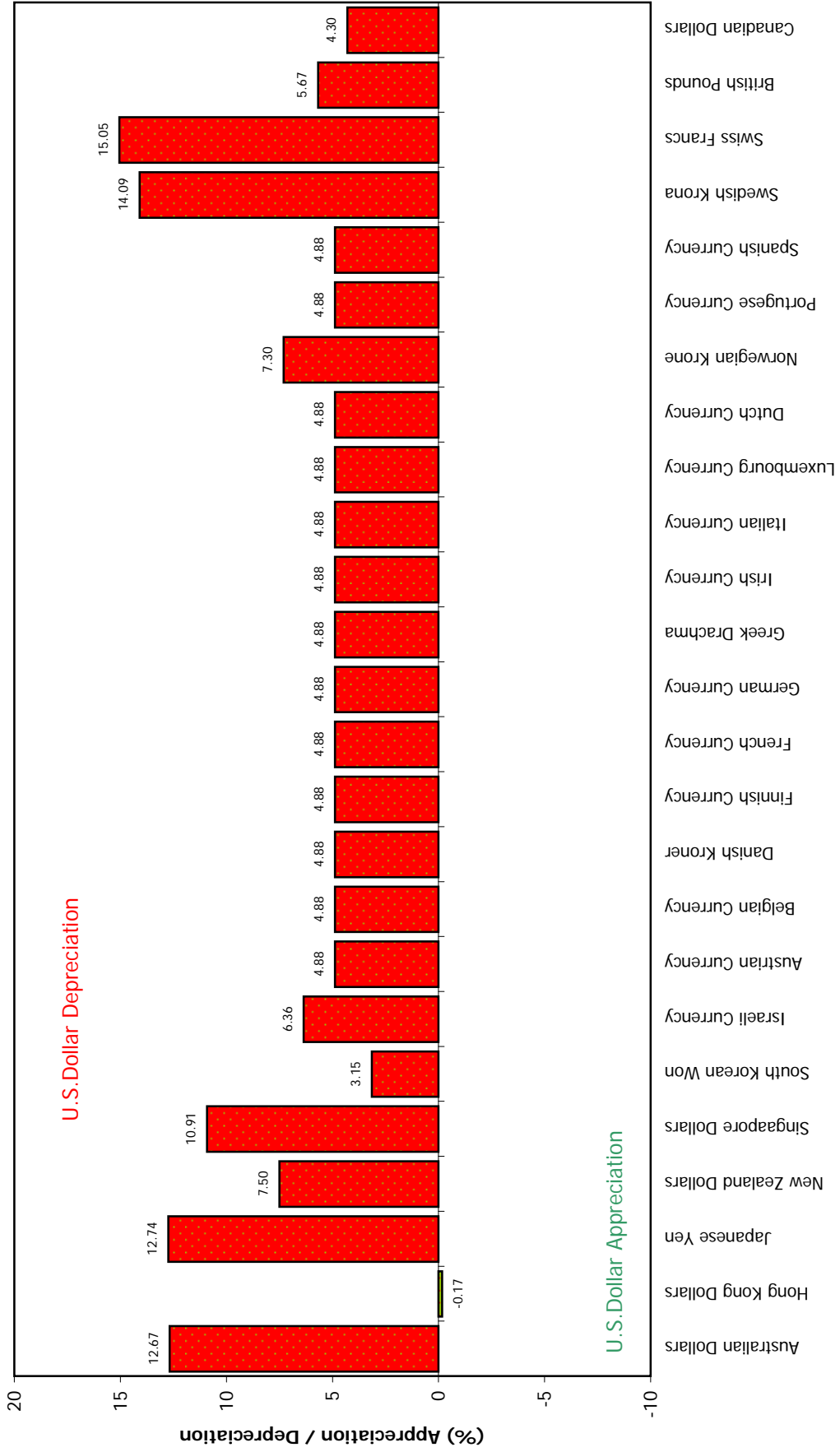




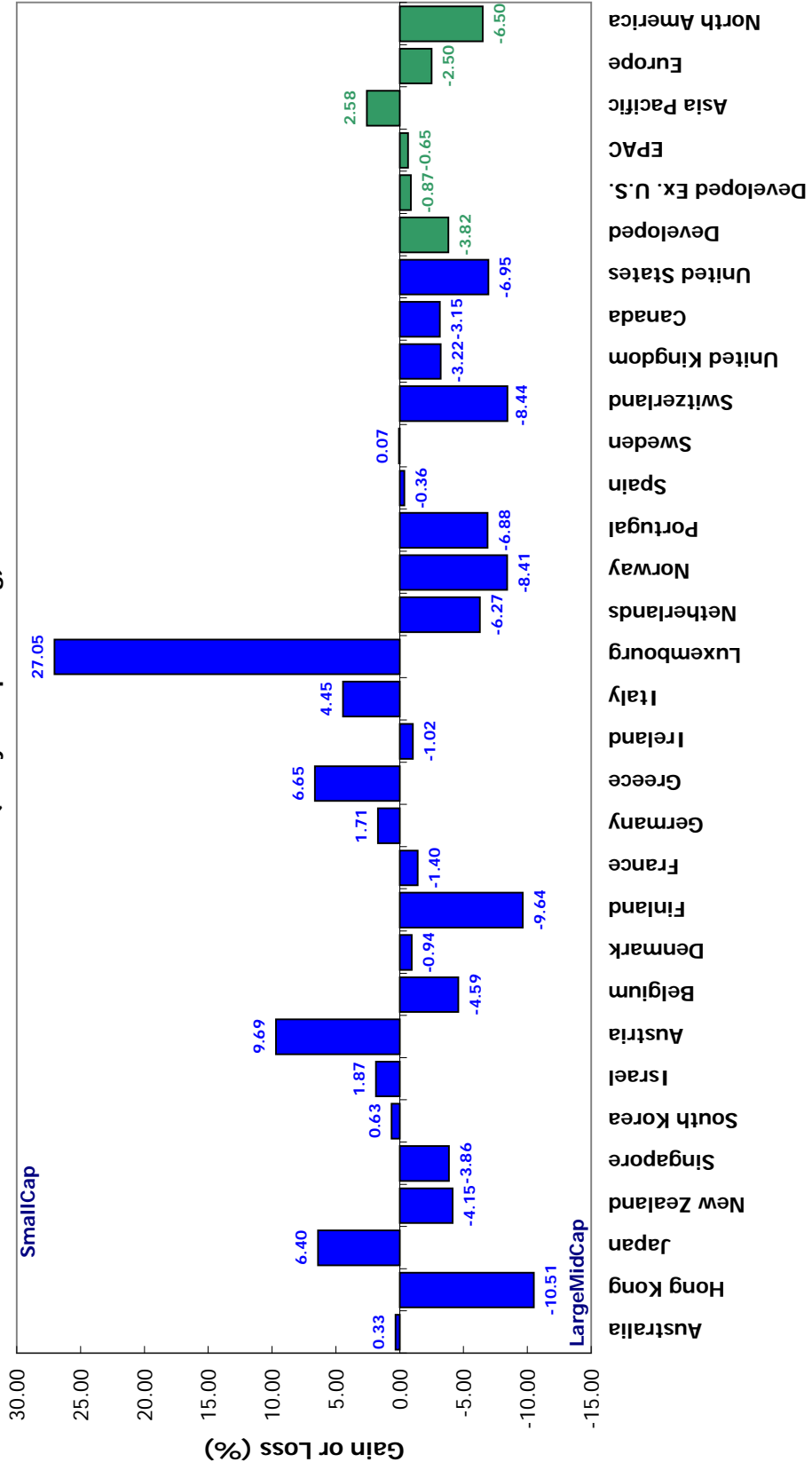
**S&P Developed Equity Index
 Currency Performance versus the U.S. Dollar (In Percentage Terms)
 30JUN2011 to 30SEP2011**

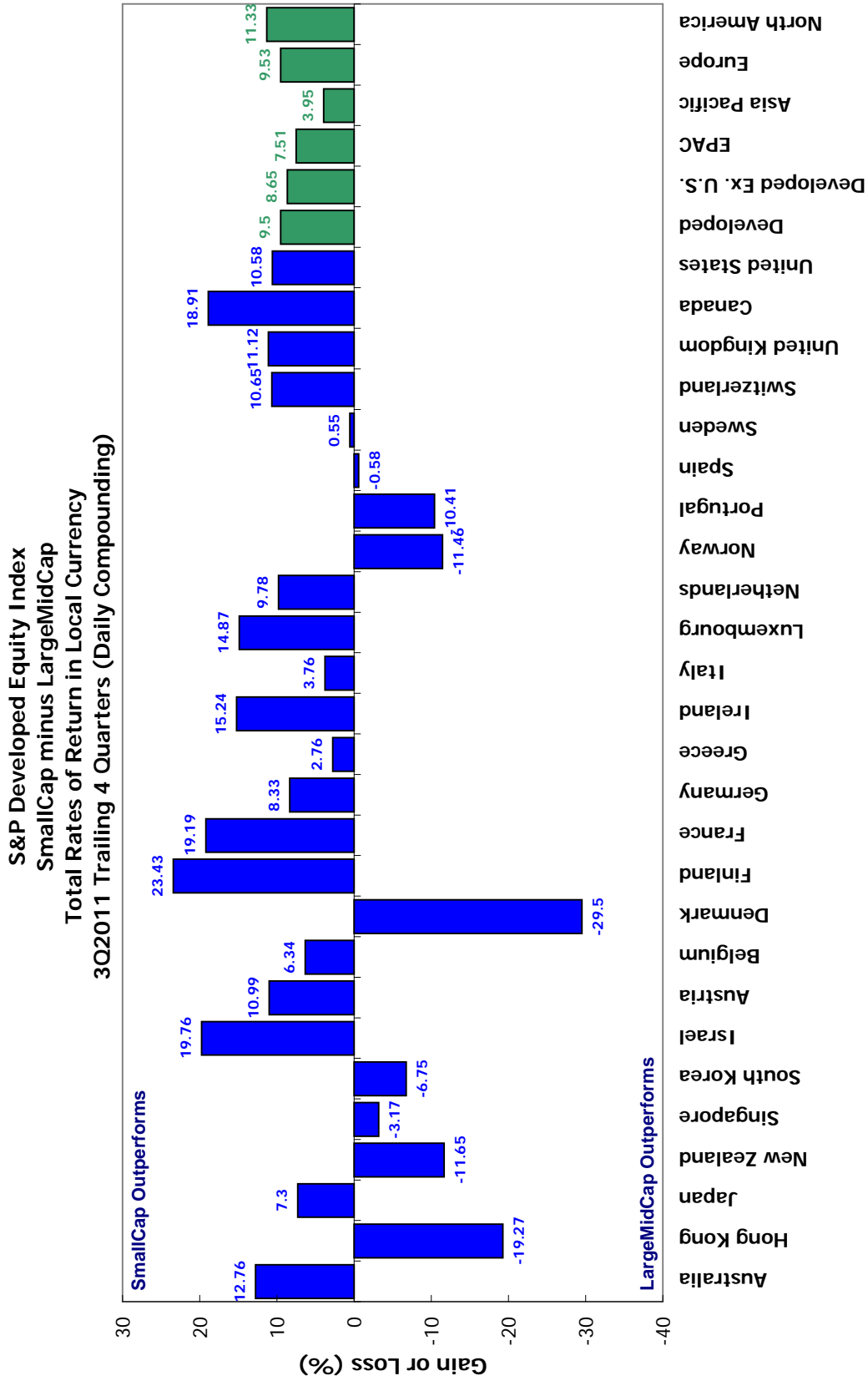


**S&P Developed Equity Index
 Currency Performance versus the U.S. Dollar (In Percentage Terms)
 30SEP2010 to 30SEP2011**



**S&P Developed Equity Index
SmallCap minus LargeMidCap
Total Rates of Return in Local Currency
3Q2011 (Daily Compounding)**





**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

**INDEXED DOMESTIC EQUITY
REVIEW**

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011

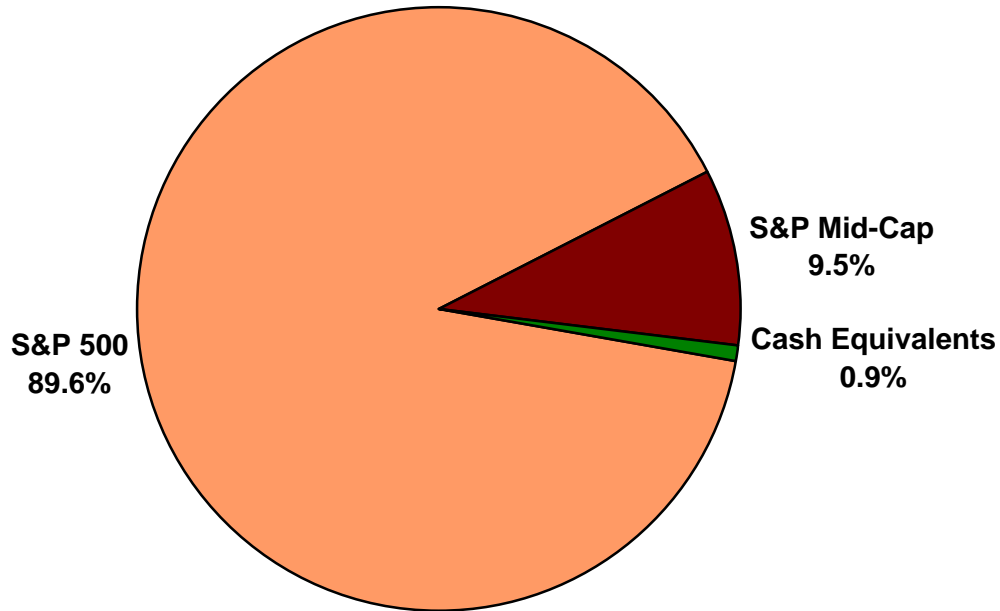


**Richard J. Holcomb, CFA, Administrator
Quantitative Analysis Division**



SMRS

Domestic Passive Equity Investments 9/30/11



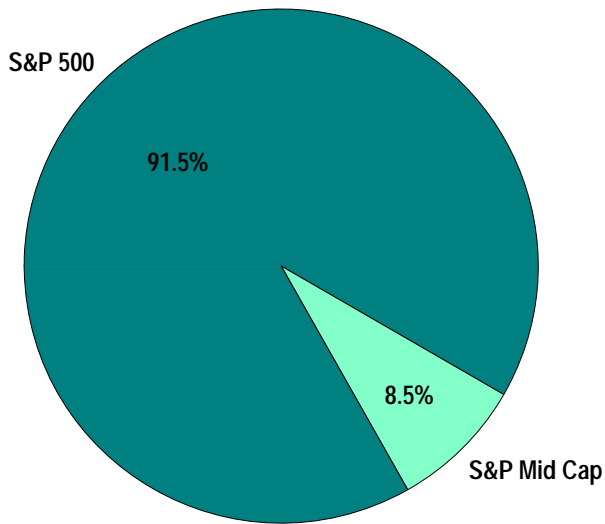
Market Value in Millions			Benchmark
S&P 500	\$4,780	89.6%	91.5%
S&P Mid-Cap	507	9.5%	8.5%
S&P Small-Cap	0	0.0%	0.0%
Total Investments	\$5,287	99.1%	100.0%
Cash Equivalents	49	0.9%	0.0%
Total	\$5,336	100.0%	100.0%



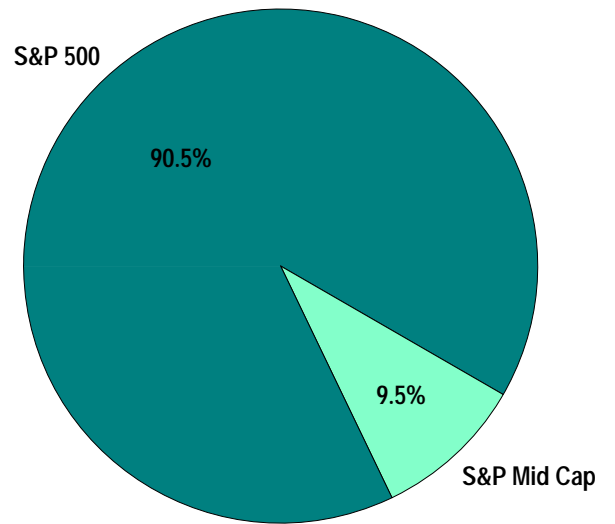
SMRS

Passive U.S. Equity Exposure 09/30/11

Standard & Poor's 900



SMRS Actual



	<u>S&P Benchmarks</u>		<u>SMRS Position Values</u>		
	<u>09/30/11 Market Cap.</u>	<u>09/30/11 Weights</u>	<u>09/30/11 Market Value</u>	<u>09/30/11 Weights</u>	<u>06/30/11 Market Value</u>
S&P 500	\$10,3037 B	91.5%	\$4,828 M	90.5%	\$5,433 M
S&P Mid-Cap	\$953 B	8.5%	\$508 M	9.5%	\$676 M

Indexed Domestic Equity Quarter Ending 09/30/11

U.S. Index Portfolios

9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011
Portfolio Value	Index Level	Synthetic % Ending	Cash % Ending	Cash % Beginning	Cash Flow % Beginning	Transaction Activity % Beginning	SMRS % Weight	S&P % Weight									
\$ 4,827,783,394	1,131.42	0.00%	0.83%	2.55%	4.34%	90.47%	91.53%										
\$ 508,474,872	781.26	0.00%	0.12%	-5.70%	11.48%	9.53%	8.47%										
\$ 5,336,258,266	260.28	0.00%	0.77%	1.76%	5.02%	100.00%	100.00%										

S&P 500
S&P Mid-Cap
Total Passive

Portfolio Returns

Quarter	6 Mo.	9 Mo.	1-Year	2-Year	3-Year	5-Year	10-Year
-13.68%	-13.51%	-8.35%	1.56%	6.00%	1.65%	-0.89%	3.05%
-19.28%	-19.64%	-11.95%	0.09%	8.93%	5.38%	3.17%	8.04%
-14.27%	-14.16%	-8.68%	1.50%	6.34%	2.03%	-0.47%	3.60%

S&P 500
S&P Mid-Cap
Total Passive

Tracking Error

Quarter	6 Mo.	9 Mo.	1-Year	2-Year	3-Year	5-Year	10-Year
0.19%	0.27%	0.33%	0.42%	0.44%	0.42%	0.29%	0.23%
0.60%	0.83%	1.07%	1.37%	1.10%	1.33%	0.97%	0.54%
0.14%	0.23%	0.38%	0.56%	0.59%	0.57%	0.42%	0.28%

S&P 500
S&P Mid-Cap
Total Passive Benchmark

**STATE OF MICHIGAN
RETIREMENT SYSTEMS**

BASKET CLAUSE REVIEW

INVESTMENT ADVISORY COMMITTEE MEETING

DECEMBER 1, 2011



**Karen M. Stout, CPA, CGFM, Administrator
Trust Accounting Division**

BASKET CLAUSE INVESTMENTS

The basket clause investments at September 30, 2011, were \$5,973 million fair market value ("FMV") or 12.585% of the total portfolio market value of \$47.465 billion.

		<u>September 30, 2011</u>	
Total Absolute and Real Return	(FMV)	\$2,463,065,130	5.189%
Total International Equity	(FMV)	<u>\$3,510,233,317</u>	7.396%
Total investments to date	(FMV)	\$5,973,298,447	12.585%

STATE OF MICHIGAN RETIREMENT SYSTEMS
Section 20D Investment Holding - 9/30/2011

COMPANY NAME	FAIR MARKET VALUE
ABSOLUTE AND REAL RETURN	
Abernathy Fund	53,542,536
Fairfield Settlement Partners	77,559,558
FrontPoint Michigan Strategic Partnership Fund	79,029,617
Frontpoint Michigan Strategic Partnership Fund II	178,960,758
Galaxie Avenue, LLC	102,074,832
Global Maritime Investment Fund	8,824,472
HPS Senior Loan Fund II	105,792,717
Lakewater LLC	70,553,638
PSAM - Spartan Fund	27,099,594
Sand Hill, LLC	987,781,554
Social Network Holdings, LLC	213,578,288
Stone Tower Capital Credit Fund	256,326,616
Stone Tower Capital Credit Strategies	101,940,950
Tahquamenon LP	200,000,000
TOTAL ABSOLUTE AND REAL RETURN	<u>\$2,463,065,130</u>
INTERNATIONAL EQUITY	
LACM Emerging Markets Fund	51,238,067
PIMCO EM Fundamental Index Strategy	226,055,283
PIMCO International Stock Plus Strategy	237,120,756
SSgA EMI	346,381,979
SSgA International Alpha Select BMI	364,915,280
SSgA International Small Cap Alpha	74,010,538
SSgA PMI	425,369,383
Vanguard Developed Mkt Index Fund Institutional	673,659,890
Vanguard Emerging Mkt Stock Index Fund	749,098,854
Wellington International Research Equity	362,383,287
TOTAL INTERNATIONAL EQUITY	<u>\$3,510,233,317</u>

COMPANY NAME	FAIR MARKET VALUE
GRAND TOTAL	\$5,973,298,447
TOTAL 20D INVESTMENTS as % of TOTAL PORTFOLIO (MKT) \$47,465 million	12.585%

Disclaimer



This presentation was given solely for the purpose of explaining the structure, investment process, and returns for the State of Michigan Retirement Systems. It should not be interpreted in any way as financial advice.

