



**StanCERA**

**Monthly Investment Performance  
Summary**

**Provided by  
Strategic Investment Solutions Inc.**

**October 2007**

## U.S. EQUITY

The fallout from a deep housing downturn appears to be now threatening overall consumer and capital spending.

The markets have advanced since the lows in August despite surging oil prices and this downturn in housing. For now, the sub-prime mortgage crisis has driven some lenders out of business and led many to impose stricter credit standards on a variety of borrowers. A slowdown does appear to be in motion with concerns of a spillover to the broader economy that may result in weaker economic trends and profit growth and higher financing costs. Also, nearly \$800 billion of adjustable rate mortgages will reset between October 2007 and December 2008, with the peak in the first and second quarters of 2008.

Stocks were up again in October as growth once again outperformed value and small caps outperformed large caps. The Russell 1000 Growth was up by +3.4% and the Russell 1000 Value was unchanged +0.0%. In the Small Cap class, the Russell 2000 Growth was up by +4.5% and the Russell 2000 Value gained +1.1%. The S&P 500 Index ended the month up +1.6% with a trailing 12-month P/E ratio of 17.9 (estimated P/E ratio of 16.2 on forward looking twelve-months earnings) and a dividend yield of 1.8%. The Nasdaq Composite Index ended October with a trailing P/E ratio of 35.8 (estimated P/E ratio of 27.5) and a dividend yield of 0.4%.

Third-quarter earnings growth for the financial sector is turning out to be sharply lower than what analysts had been anticipating for some time.

Corporate merger activity highlights for the month included: Nokia, the world's biggest mobile phone company, offered \$8.1 billion for digital map supplier Navteq; Toronto-Dominion Bank will buy Commerce Bancorp for \$8.5 billion; Citigroup will buy out minority shareholders of

Japanese brokerage Nikko Cordial for \$4.6 billion; PPG Industries will buy SigmaKalon Group, a Dutch paint and coatings producer, for \$3 billion; Textron will buy United Industrial, a manufacturer of aerospace and defense products, for about \$1.1 billion; Newmont Mining agreed to buy Canadian rival Miramar Mining for about \$1.5 billion; Oracle, the 3<sup>rd</sup>-largest software company, made an unsolicited \$6.7 billion bid to buy BEA Systems; Munich Re will buy The Midland Co., a specialty insurance products and services provider, for about \$1.3 billion; Goodman Global, a maker of heating and air-conditioning equipment, will be acquired by Hellman & Friedman for about \$2.65 billion; U.S. private equity firm J.C. Flowers is in talks to buy troubled British mortgage lender Northern Rock; and, Applebee's shareholders approved a \$1.9 billion offer from IHOP to buy the restaurant chain.

More private equity firms are fighting for pieces of a smaller pie as fundraising levels decline even as the number of funds flooding the market increases, Private Equity Intelligence has said.

## FIXED INCOME

The Federal Reserve cut its benchmark interest rate by an additional quarter point on October 31, 2007 to 4.5% and signaled it's reluctant to reduce borrowing costs further. "Today's action, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in the financial markets," the Federal Open Market Committee said in a statement after their meeting. The decision, following a half-point cut six weeks ago, shows that the Fed is confronted with risks on two fronts: plunging home construction and eroding real-estate values could hit the broader economy, while rising oil and commodity prices combined with a weak dollar could spoil the Fed's hopes to contain inflation.

Long-term interest rates were slightly lower in October. The bellwether 10-year Treasury note closed the month of October at 4.46% from 4.56% at the close of September. At month-end, the 30-year long bond yield was 4.74% and the 3-month T-bill was yielding 3.80%. The Lehman Aggregate Index was up by +0.90% in October.

On the economic front, the following key data was released in October:

\*The Institute for Supply Management said its index of national factory activity fell to 52.0 in Sept. from 52.9 in August, the slowest pace in 6 months. The Institute also reported that its non-manufacturing index fell to 54.8% from 55.8% in August, the slowest pace since March.

\*The National Association of Realtors' index of signed purchase agreements to buy previously owned homes dropped 6.5% in August after an 11% decline in July.

\*Challenger, Gray & Christmas said the U.S. financial industry announced 87,962 job cuts so far this year, 75% more than in all of 2006.

\*The Commerce Dept. reported that factory orders fell 3.3% in August, the largest decline since January.

\*The Labor Dept. reported that the unemployment rate edged up to 4.7% in September, the highest since the summer of 2006.

\*September retail sales increased 2% from a year earlier, the slowest pace in five months.

\*The Commerce Dept. reported that the trade deficit declined to \$57.6 billion in August, down 2.4% from the July imbalance and the lowest in 7 months.

\*The Labor Dept. reported that U.S. producer prices rose a larger-than-expected 1.1% in September, but core inflation increased by a tame 0.1%.

\*The Conference Board's index of leading indicators posted a 0.3% gain in September. The August decline of 0.6% was revised down to a decline of 0.8%. Consistent with soft economic growth, the Leading Index has been trend less for the past year.

\*The Federal Reserve reported that industrial output edged up by 0.1% in September following no change in August.

\*The Commerce Dept. said housing starts fell 10.2% to an annual pace of 1.19 million units in September, the lowest pace for housing starts since the March 1993 rate of 1.08 million units.

\*Sales of previously owned homes fell 8.0% in September to a record low 5.04 million unit pace amid troubles in the sub prime mortgage and credit markets. The median price of existing homes fell to \$211,700 in September, down 4.2% from a year earlier.

\*New orders for durable goods fell unexpectedly in September, dropping 1.7% on a sharp decline in demand for transportation equipment.

\*Oil prices jumped to a record \$94.53 a barrel on October 31<sup>st</sup>.

The New York-based Conference Board reported that its Consumer Confidence Index fell to 95.6 from a revised 99.5 in September and was the lowest reading since October 2005.

## NON-U.S. MARKETS

Consumer prices in the euro area rose by 2.1% in the year to September, faster than the 1.7% in the year to August. European Central Bank officials said food costs and record oil prices are fanning inflation pressures in the 13 euro nations, suggesting they may support further rate increases. The currency zone's unemployment rate was 6.9% in August unchanged from July. Industrial output in the largest euro area economies was buoyant in August. In Germany it rose by 1.7%; in

France by 0.3% and in Italy by 1.3%. Germany's leading economic research institute in October raised their forecast for German GDP growth this year to 2.6% from the 2.4% rate projected in April.

Britain's GDP rose by 0.8% in the second quarter and by 3.3% from a year earlier. The output of financial and business services rose by 1.7% in the quarter.

As expected, Japan's central bank left its benchmark interest rate at 0.5%. The International Monetary Fund has revised down its forecast for Japanese economic growth this year to 2.0% from its July estimate of 2.6%. The IMF also revised down its 2008 GDP forecast to 1.7% from 2.0% previously.

The dollar continued to fall to its lowest-ever level against the euro in October as the euro rose above \$1.44. The Chinese Yuan staged its strongest rally of the past two years after China's central bank signaled it would let the currency rise faster than previously expected to help narrow its record trade surplus and slow inflation.

The MSCI ACWI Ex-U.S. was up by +5.6% (US dollars) in October. Developed stocks (EAFE) were up by +3.9% while Emerging Markets once again returned a staggering +11.2% for the month and are now up +49.9% year-to-date.

## CONCLUSIONS

The Dow plummeted 367 points (-2.6%) on Friday, October 19, 2007. That pullback pales in comparison to what traders on the floor of the NYSE had to contend with exactly 20 years ago when on a day still known as Black Monday, the Dow plunged 23%. To put that in perspective, a 23% decline in today's market would equate to roughly 3,195 Dow points.

# MARKET UPDATE

For October 2007

US Equity Indices	Style	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Russell 3000	Broad US Equity	1.83%	7.06%	10.77%	14.53%	13.81%	14.83%	7.39%
Russell 200	Large Cap Equity	1.80%	7.89%	11.24%	15.00%	12.61%	12.61%	6.27%
Russell 200 Growth	Large Cap Growth	3.81%	10.58%	16.79%	19.17%	11.63%	10.79%	4.03%
Russell 200 Value	Large Cap Value	(0.12%)	5.35%	6.23%	11.20%	13.69%	14.64%	7.79%
S&P 500	Large Cap Equity	1.59%	6.97%	10.87%	14.56%	13.16%	13.88%	7.10%
Russell 1000	Large Cap Equity	1.74%	7.07%	11.21%	15.03%	13.82%	14.54%	7.40%
Russell 1000 Growth	Large Cap Growth	3.40%	9.45%	16.51%	19.23%	12.87%	12.61%	4.81%
Russell 1000 Value	Large Cap Value	0.01%	4.61%	5.98%	10.84%	14.62%	16.39%	9.11%
Russell Mid Cap	Mid Cap Equity	1.61%	5.14%	11.25%	15.24%	16.90%	20.10%	11.05%
Russell Mid Cap Growth	Mid Cap Growth	2.55%	7.15%	16.24%	19.72%	16.69%	19.21%	8.30%
Russell Mid Cap Value	Mid Cap Value	0.38%	2.53%	5.23%	9.73%	16.48%	20.36%	11.69%
Russell 2000	Small Cap Equity	2.87%	7.01%	6.12%	9.27%	13.69%	18.67%	8.01%
Russell 2000 Growth	Small Cap Growth	4.50%	10.24%	14.27%	16.73%	14.87%	18.57%	4.75%
Russell 2000 Value	Small Cap Value	1.09%	3.58%	(1.64%)	2.05%	12.34%	18.60%	10.49%

## Non-US Indices

MSCI ACWI Ex-US	Broad Non-US Equity	5.58%	10.85%	24.43%	32.97%	27.38%	26.39%	10.75%
MSCI EAFE	Developed Non-US Equity	3.94%	7.84%	18.04%	25.43%	23.96%	23.71%	9.40%
MSCI Emerging Mkts.	Emerging Non-US Equity	11.16%	20.86%	49.90%	68.33%	45.22%	40.31%	15.18%
Lehman Global Ex-US Bond	Global Bonds	1.84%	6.36%	8.96%	10.28%	4.42%	8.42%	5.61%
Euro	Currency	1.73%	5.69%	9.83%	13.35%	4.38%	7.88%	N/A-
Japanese Yen	Currency	(0.23%)	3.28%	1.39%	1.62%	(2.70%)	1.22%	0.42%
British Pound	Currency	1.96%	2.23%	5.84%	8.92%	4.27%	5.84%	2.16%

## US Fixed Income Indices

3 month Treasury Bills	Cash	0.30%	1.24%	4.22%	5.13%	4.16%	2.97%	3.78%
Lehman Aggregate	Core Bonds	0.90%	2.92%	4.78%	5.38%	3.88%	4.41%	5.91%
Lehman US Universal	Core Bonds Plus	0.91%	3.03%	4.69%	5.39%	3.68%	4.55%	5.95%
Lehman Gov't/Credit	Core Bonds	0.91%	2.92%	4.97%	5.39%	3.68%	4.55%	5.95%
Citigroup (Salomon) Corporate	Corporate Bonds	1.07%	2.91%	3.91%	4.46%	3.59%	5.90%	6.23%
Citigroup (Salomon) Mortgage	Mortgages	0.98%	3.19%	4.77%	5.65%	4.37%	4.30%	5.86%
Merrill Lynch High Yield Master II	High Yield Bonds	0.61%	4.21%	4.02%	6.85%	7.00%	12.84%	5.90%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING OCTOBER 31, 2007**

**SUMMARY OF INVESTMENTS**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			NEW TARGET	RANGE
DOMESTIC EQUITIES	690,226,087	45.9%	46.4%	36.5% - 56.3%
INTERNATIONAL EQUITIES	328,551,901	21.9%	20.0%	16.0% - 24.0%
FIXED INCOME	461,342,395	30.7%	33.6%	30.6% - 36.6%
CASH (equity managers only)	22,680,932	1.5%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,502,801,315	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	17.3%	17.5%
DELAWARE - LARGE CAP GROWTH	8.8%	8.9%
LOOMIS SAYLES - LARGE CAP GROWTH	6.0%	5.9%
RUSSELL 2000 VALUE i-Shares	4.9%	5.0%
MAZAMA - SMALL CAP GROWTH	4.7%	4.3%
BNY - S&P 500 INDEX	5.3%	4.8%
LSV ASSET MGMT - INTL EQ	11.0%	10.0%
FIDELITY - INTL EQ	11.3%	10.0%
DODGE & COX FIXED INCOME	30.7%	33.6%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING OCTOBER 31, 2007**

**GROWTH OF ASSETS AND CHANGES IN ALLOCATION**

<u>ASSET CLASS</u>	<u>CURRENT</u> <u>MONTH</u>	<u>PRIOR</u> <u>MONTH</u>	<u>% CHANGE *</u>	<u>PRIOR</u> <u>YEAR</u>	<u>% CHANGE *</u>
<b>MARKET VALUE</b>					
DOMESTIC EQUITIES	690,226,087	684,498,013	0.84%	650,854,572	6.05%
INTERNATIONAL EQUITIES	328,551,901	312,444,578	5.16%	230,344,234	42.64%
FIXED INCOME	461,342,395	458,045,043	0.72%	430,815,735	7.09%
<u>CASH (equity managers only)</u>	<u>22,680,932</u>	<u>15,411,042</u>	<u>47.17%</u>	<u>18,983,936</u>	<u>19.47%</u>
TOTAL PORTFOLIO	1,502,801,315	1,470,398,676	2.20%	1,330,998,478	12.91%
<b>ASSET ALLOCATION (ACTUAL)</b>					
DOMESTIC EQUITIES	45.93%	46.55%	-0.6%	48.90%	-3.0%
INTERNATIONAL EQUITIES	21.86%	21.25%	0.6%	17.31%	4.6%
FIXED INCOME	30.70%	31.15%	-0.5%	32.37%	-1.7%
<u>CASH (equity managers only)</u>	<u>1.51%</u>	<u>1.05%</u>	<u>0.5%</u>	<u>1.43%</u>	<u>0.1%</u>
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

\* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING OCTOBER 31, 2007**

**MANAGER ALLOCATION**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	POLICY RANGE
<b>DOMESTIC EQUITIES</b>				
DODGE & COX - LARGE CAP VALUE	260,083,975	17.3%	17.5%	14.5% - 20.5%
DELAWARE - LARGE CAP GROWTH	132,723,764	8.8%	8.9%	6.9% - 10.9%
LOOMIS SAYLES - LARGE CAP GROWTH	90,390,686	6.0%	5.9%	4.5% - 7.3%
RUSSELL 2000 Value i-Shares	73,946,948	4.9%	5.0%	3.9% - 6.1%
MAZAMA - SMALL CAP GROWTH	70,189,662	4.7%	4.3%	2.9% - 5.7%
BNY - S&P 500 INDEX	<u>78,948,024</u>	<u>5.3%</u>	<u>4.8%</u>	3.8% - 5.8%
TOTAL DOMESTIC EQUITIES	706,283,060	47.0%	46.4%	
<b>FIXED INCOME</b>				
DODGE & COX	<u>461,342,395</u>	<u>30.7%</u>	<u>33.6%</u>	30.6% - 36.6%
TOTAL FIXED INCOME	461,342,395	30.7%	33.6%	
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT.	165,469,792	11.0%	10.0%	8.0% - 12.0%
FIDELITY	<u>169,706,068</u>	<u>11.3%</u>	<u>10.0%</u>	8.0% - 12.0%
TOTAL INTERNATIONAL EQUITIES	<u>335,175,861</u>	<u>22.3%</u>	<u>20.0%</u>	
	<u><u>1,502,801,315</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING 10/31/07**

	TOTAL FUND			
	CASH	BONDS	EQUITIES	TOTAL
<b>DOMESTIC EQUITIES</b>				
DODGE & COX - LARGE CAP VALUE	11,344,433		248,739,542	260,083,975
DELAWARE - LARGE CAP GROWTH	1,920,838		130,802,926	132,723,764
LOOMIS SAYLES - LARGE CAP GROWTH	480,257		89,910,430	90,390,686
RUSSELL 2000 Value i-Shares	1,522,425		72,424,523	73,946,948
MAZAMA - SMALL CAP GROWTH	789,020		69,400,642	70,189,662
BNY - S&P 500 INDEX	0		78,948,024	78,948,024
TOTAL DOMESTIC EQUITIES	16,056,972		690,226,087	706,283,060
<b>FIXED INCOME</b>				
DODGE & COX	10,799,584	450,542,811		461,342,395
TOTAL FIXED INCOME	10,799,584	450,542,811		461,342,395
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT.	3,731,982		161,737,810	165,469,792
FIDELITY	2,891,977		166,814,091	169,706,068
TOTAL INTERNATIONAL EQUITIES	6,623,959		328,551,901	335,175,861
<b>TOTAL STANCERA PORTFOLIO</b>	<b>33,480,516</b>	<b>450,542,811</b>	<b>1,018,777,988</b>	<b>1,502,801,315</b>
	2.2%	30.0%	67.8%	100.0%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING OCTOBER 31, 2007**  
**PRELIMINARY**

**CURRENT PERFORMANCE**

	MARKET VALUE	OCT	ALPHA	SEPT	ALPHA	FISCAL YTD	ALPHA
<b>DOMESTIC EQUITIES</b>							
<b>DODGE &amp; COX - LARGE CAP VALUE</b>	<b>248,739,542</b>	<b>0.51%</b>	<b>0.50%</b>	<b>2.02%</b>	<b>-1.42%</b>	<b>-1.44%</b>	<b>-1.20%</b>
<i>RUSSELL 1000 VALUE</i>		<i>0.01%</i>		<i>3.44%</i>		<i>-0.24%</i>	
<b>DELAWARE - LARGE CAP GROWTH*</b>	<b>130,802,926</b>	<b>3.35%</b>	<b>-0.05%</b>	<b>5.36%</b>	<b>1.17%</b>	<b>11.73%</b>	<b>3.97%</b>
<i>RUSSELL 1000 GROWTH</i>		<i>3.40%</i>		<i>4.19%</i>		<i>7.75%</i>	
<b>LOOMIS SAYLES - LARGE CAP GROWTH*</b>	<b>89,910,430</b>	<b>6.51%</b>	<b>3.11%</b>	<b>6.97%</b>	<b>2.78%</b>	<b>13.87%</b>	<b>6.12%</b>
<i>RUSSELL 1000 GROWTH</i>		<i>3.40%</i>		<i>4.19%</i>		<i>7.75%</i>	
<b>R2000 V i-Shares**</b>	<b>72,424,523</b>	<b>0.85%</b>	<b>-0.24%</b>	<b>0.87%</b>	<b>0.42%</b>	<b>-6.10%</b>	<b>-0.86%</b>
<i>RUSSELL 2000 VALUE</i>		<i>1.09%</i>		<i>0.45%</i>		<i>-5.24%</i>	
<b>MAZAMA - SMALL CAP GROWTH</b>	<b>69,400,642</b>	<b>1.88%</b>	<b>-2.26%</b>	<b>2.03%</b>	<b>-1.44%</b>	<b>-2.73%</b>	<b>-7.56%</b>
<i>RUSSELL 2500 GROWTH</i>		<i>4.14%</i>		<i>3.47%</i>		<i>4.83%</i>	
<b>BNY - S&amp;P 500 INDEX</b>	<b>78,948,024</b>	<b>1.59%</b>	<b>0.00%</b>	<b>3.75%</b>	<b>0.01%</b>	<b>3.62%</b>	<b>0.00%</b>
<i>S&amp;P 500</i>		<i>1.59%</i>		<i>3.74%</i>		<i>3.62%</i>	
<b>TOTAL DOMESTIC EQUITY</b>	<b>690,226,087</b>	<b>1.92%</b>	<b>0.09%</b>	<b>3.35%</b>	<b>-0.30%</b>	<b>2.73%</b>	<b>-0.67%</b>
<i>Russell 3000 Index</i>		<i>1.83%</i>		<i>3.65%</i>		<i>3.40%</i>	
<b>FIXED INCOME</b>							
<b>DODGE &amp; COX</b>	<b>461,342,395</b>	<b>0.72%</b>	<b>-0.18%</b>	<b>1.06%</b>	<b>0.30%</b>	<b>2.93%</b>	<b>-0.81%</b>
<i>LEHMAN AGGREGATE BOND</i>		<i>0.90%</i>		<i>0.76%</i>		<i>3.74%</i>	
<b>INTERNATIONAL INVESTMENTS</b>							
<b>LSV ASSET MGMT</b>	<b>161,737,810</b>	<b>5.08%</b>	<b>-0.50%</b>	<b>4.18%</b>	<b>-2.42%</b>	<b>6.71%</b>	<b>-3.74%</b>
<i>MSCI ACWI Free ex-US</i>		<i>5.58%</i>		<i>6.60%</i>		<i>10.46%</i>	
<b>PYRAMIS</b>	<b>166,814,091</b>	<b>6.12%</b>	<b>0.54%</b>	<b>7.98%</b>	<b>1.38%</b>	<b>12.56%</b>	<b>2.10%</b>
<i>MSCI ACWI Free ex-US</i>		<i>5.58%</i>		<i>6.60%</i>		<i>10.46%</i>	
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>328,551,901</b>	<b>5.60%</b>	<b>0.02%</b>	<b>6.08%</b>	<b>-0.52%</b>	<b>9.58%</b>	<b>-0.88%</b>
<i>MSCI ACWI Free ex-US</i>		<i>5.58%</i>		<i>6.60%</i>		<i>10.46%</i>	
<b>CASH &amp; SHORT-TERM INVESTMENTS</b>							
<b>CASH</b>	<b>22,680,932</b>	<b>0.30%</b>	<b>0.00%</b>	<b>0.43%</b>	<b>0.02%</b>	<b>1.62%</b>	<b>-0.04%</b>
<i>90 DAY TREASURY BILL</i>		<i>0.30%</i>		<i>0.41%</i>		<i>1.66%</i>	
<b>TOTAL StanCERA Fund</b>	<b>1,502,801,315</b>	<b>2.41%</b>	<b>0.08%</b>	<b>3.19%</b>	<b>0.04%</b>	<b>4.29%</b>	<b>-0.50%</b>
<i>Policy Index</i>		<i>2.33%</i>		<i>3.15%</i>		<i>4.79%</i>	
<i>Actuary Rate of Assumption (8.16%)</i>		<i>0.66%</i>	<b>1.75%</b>	<i>0.66%</i>	<b>2.53%</b>	<i>2.70%</i>	<b>1.59%</b>
<i>Actuary Rate of Inflation (4.00%)</i>		<i>0.33%</i>	<b>2.07%</b>	<i>0.33%</i>	<b>2.86%</b>	<i>1.33%</i>	<b>2.96%</b>