StanCERA

Monthly Investment Performance Summary

Provided by
Strategic Investment Solutions Inc.

September 2009

Investment Results Compiled by StanCERA Staff
Market Commentary by Strategic Investment Solutions, Inc.

U.S. EQUITY

The U.S. economy appears to growing by about 3% in the third quarter, which seems quite good compared to where we have been, but may not be fast enough to offset the excess capacity of labor and production that currently exists in the economy. Businesses continue to perform well in regards to cutting costs and managing inventories but have yet to see a meaningful increase in revenues. Excess capacity will ultimately lead to a possibility that businesses will have to consolidate. The excess capacity of labor equates to high unemployment that in turn means that households are earning less income. Lower household income increases the number of people who can't make debt payments and implies less taxes paid to the government. The end result is a confirmation of what we have been saying: the recovery process in this cycle will be very uneven and it is unreasonable to expect a "normal" economic recovery given the severity of the downturn that was caused by decades of debt buildup and the usage of excessive leverage which resulted in the financial turmoil that we experienced over the past two years. Consider that even a 3% growth path in the US over the first six quarters of a recovery would be less than half of the normal rebound from a major recession.

September 2009 was the seventh consecutive monthly gain for U.S. equities and we have now had the best 6-month rally since 1933. Growth outperformed value and small caps outperformed large caps. The Russell 1000 Growth Index was up +4.3% for the month of September, while the Russell 1000 Value Index was up +3.9%. In the small cap class, the Russell 2000 Growth Index was up +6.6% and the Russell 2000 Value Index was up +5.0%. The S&P 500 Index ended the month up +3.7%.

Corporate merger activity highlights for the month included: U.S. drug maker Sepracor will be acquired by Japan's Dainippon Sumitomo Pharma for $2.6 billion; Advanced Technology Investment, the majority owner of Global Foundries, will buy Chartered Semiconductor Mfg. for $3.9 billion; Cadbury rejected a $16.7 billion offer from Kraft Foods to acquire the U.K. milk chocolate maker; Vivendi made a $3 billion offer to buy Brazilian telecom provider GVT; Sterlite Industries raised its bid for Asarco by 20% to $2.57 billion, topping rival Grupo Mexico's offer; Avaya will pay $915 million for Nortel Enterprise Solutions; Adobe Systems will buy business software maker Omniture for $1.8 billion; Pilgrim's Pride will sell a 64% stake in the company to Brazilian beef producer JBS for $800 million; Nippon Life Insurance, Japan's biggest life insurer, agreed to invest $500 million in Prudential Financial; Aircraft leasing company AerCap will buy rival Genesis Lease in a deal worth $1.75 billion; Dell will buy computer services maker Perot Systems for $3.9 billion; Japan's Suntory Holdings made a binding offer worth about $2.7 billion to buy European drink maker Orangina from Blackstone and Lion Capital; Unilever will pay $1.87 billion to acquire Sara Lee's personal care brands; Solvay, a Belgian drugs, chemicals and plastics maker, will sell its drugs unit to Abbott Labs for $6.6 billion; and, Xerox will buy Affiliated Computer for $6.4 billion.

FIXED INCOME

Fed Reserve Chairman Ben Bernanke said that the worst U.S. recession since the Great Depression was probably over, but the recovery would be slow. A CNN/Opinion Research survey finds 86% of those questioned think the U.S. is still in a recession.

The unemployment rate jumped to 9.7% in August, the highest since 1983, reflecting a poor job market that will make a sustained economic recovery difficult. The Fed's latest Beige Book summary said that the reports from the 12 Federal Districts indicate that economic activity continued to stabilize in July and August, although consumer spending remained weak. The Commerce Dept. reported that gross domestic product fell at a 0.7% annual rate in the second quarter instead of the 1.0% decline reported last month.

Long-term interest rates were lower in the month of September. The bellwether 10-year Treasury note ended the month yielding 3.31% down from 3.40% at the close of August. At month-end, the 30-year long bond yield was 4.05% and the 3-month T-bill was at 0.11%. The Barclays Capital US Aggregate Index was up by +1.05% in September and is now up +5.72% year-to-date in 2009. Once again, high yield bonds were the strongest sector in September up by +5.98% as measured by the Merrill Lynch High Yield Master II Index.

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

*The Institute for Supply Management reported that its index of national factory activity rose to 52.9 in August from 48.9 in July, the first sign of growth in the sector since January 2008.

*The Labor Dept. reported that productivity, the amount of output per hour of work, rose at an annual rate of 6.6% in the 2nd quarter, the largest advance since the summer of 2003.

*Labor costs declined 5.9% in the 2nd quarter, the largest drop since the 2nd quarter in 2000.

*A compilation of 31 retailers' results showed sales in established stores fell by 2.1% in August.

*The Federal Reserve reported that consumers reduced their debt in July by a record $21.6 billion from June.

*The Commerce Dept. reported that the U.S. trade gap expanded 16.3% in July to $32.0 billion, the biggest month over month increase since February 1999.

*Median household income dropped 3.6% to $50,303 in 2008 from $52,163 in 2007 which was the sharpest drop since at least 1987.

*The Treasury Dept. reported that the federal deficit surged higher into record territory in August, reaching $1.38 trillion with one month left in the budget year.

*The Commerce Dept. reported that retail sales rose a seasonally adjusted 2.7% in August after falling 0.2% in July. It was the largest gain in three and a half years.

*The Federal Reserve reported that U.S. industrial production jumped a more than expected 0.8% in August, following a 1.0% gain in July.

*The Treasury Dept. reported that foreign investors sold $97.5 billion in U.S. assets in July, the biggest sell-off since January.

*U.S. advertising spending fell 14.3% to $61 billion in the first half of 2009.

*The Commerce Dept. reported that housing starts rose 1.5% from July to a seasonally adjusted annual rate of 598,000 units, the highest level in 9 months.

*The Conference Board's index of leading economic indicators, which helps forecast economic trends 6 to 9 months ahead, rose 0.6% to 102.5, the highest level since January 2008.

*The National Association of Realtors reported that sales of previously owned single-family homes fell 2.7% in August from July, but were up 3.4% from August 2008.

*The Commerce Dept. reported that U.S. durable goods orders fell 2.4% in August, the largest decline since January.

*The Commerce Dept. reported that the median home sales price in August fell by 11.7% form a year earlier to $195,200, the lowest since October 2003.

The Reuters/University of Michigan Surveys of Consumers said its final index of sentiment for September rose to 73.5 from 65.7 in August. The New York-based Conference Board reported that its Consumer Confidence Index fell to 53.1 in September from 54.5 in August.

Non-U.S. Markets

Many economists expect UK GDP to contract by over 4.0% in 2009, the weakest year in post-WWII history.

Broad money growth continues to slow in the Euro zone. M3 grew just 2.5% year-over-year in August, the slowest in the history of the Euro zone. The preliminary estimates of the purchasing managers' indexes (PMI) for September suggest that manufacturing activity has stabilized in Germany and the overall Euro zone, and is now expanding in France. Business confidence continues to recover. In Germany, the Ifo index rose another 0.8 point to 91.3, the sixth consecutive increase and the highest level since September 2008.

Japanese industrial activity continues to gradually recover. The all-industry activity index rose by 0.5% in July its fourth consecutive gain. Exports continue to recover robustly as the volume of exports rose another 1.5% in August, the sixth consecutive gain. Exports are now 25% above their February trough but still remain 26% below their pre-crisis level. Deflation is becoming entrenched in Japan. Year-over-year, Corporate services prices (CSPI), which measures the cost of running a business are at -3.5%, the lowest in the history of the series.

Non-U.S. Developed markets were higher in the month of August. The MSCI ACWI Ex-U.S. was up by 5.2% (US dollars) in September. Developed stocks (EAFE) were up by +3.9% while Emerging Markets were up by +9.1%.

Conclusions

The level of economic activity has started to modestly pick up over the past couple of months. Emerging markets (particularly those in Asia) have had the most vigorous rebound. Europe continues to contract and is underperforming other developed countries. The MSCI Emerging Markets Index is up by almost 65% year-to-date in 2009 vs. a gain of 31% for the MSCI World ex-US Index. Bridgewater states that we are really looking at two different worlds – 1) the mature industrialized, typically Western, typically debtor world represented by the U.S. and Europe and 2) the emerging, typically Eastern, typically creditor world represented by China. Bridgewater believes "that there will be a sustained divergence in growth levels between the over-indebted developed world and the emerging world." We suspect that we have already begun to experience that divergence.

MARKET UPDATE

For September 2009

US Equity Indices	Style	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Russell 3000	Broad US Equity	4.19%	16.31%	21.19%	(6.42%)	(5.06%)	1.56%	0.73%
Russell 200	Large Cap Equity	3.45%	14.41%	17.04%	(7.05%)	(5.45%)	0.58%	(1.41%)
Russell 200 Growth	Large Cap Growth	3.71%	12.70%	23.63%	(2.33%)	(2.21%)	1.29%	(3.66%)
Russell 200 Value	Large Cap Value	3.19%	16.22%	10.38%	(11.88%)	(8.65%)	(0.17%)	0.60%
S&P 500	Large Cap Equity	3.73%	15.61%	19.26%	(6.91%)	(5.43%)	1.02%	(0.15%)
Russell 1000	Large Cap Equity	4.06%	16.07%	21.08%	(6.14%)	(5.10%)	1.49%	0.41%
Russell 1000 Growth	Large Cap Growth	4.25%	13.97%	27.11%	(1.85%)	(2.50%)	1.86%	(2.55%)
Russell 1000 Value	Large Cap Value	3.86%	18.24%	14.85%	(10.62%)	(7.87%)	0.90%	2.59%
Russell Mid Cap	Mid Cap Equity	5.67%	20.62%	32.62%	(3.55%)	(4.07%)	3.88%	6.05%
Russell Mid Cap Growth	Mid Cap Growth	5.75%	17.58%	37.12%	(0.40%)	(3.10%)	3.75%	2.18%
Russell Mid Cap Value	Mid Cap Value	5.60%	23.62%	27.57%	(7.12%)	(5.65%)	3.53%	7.43%
Russell 2000	Small Cap Equity	5.77%	19.28%	22.43%	(9.55%)	(4.57%)	2.41%	4.88%
Russell 2000 Growth	Small Cap Growth	6.57%	15.95%	29.12%	(6.32%)	(2.60%)	2.91%	1.10%
Russell 2000 Value	Small Cap Value	5.02%	22.70%	16.36%	(12.61%)	(6.65%)	1.78%	8.05%
DJW US REIT Index	REITS	7.00%	35.44%	17.65%	(29.35%)	(13.73%)	1.15%	9.72%

Non-US Indices

MSCI ACWI Ex-US	Broad Non-US Equity	5.16%	19.77%	36.95%	6.43%	(0.78%)	8.59%	4.44%
MSCI AC World Index	Global Equity	4.62%	17.99%	29.30%	0.53%	(2.71%)	5.10%	2.03%
MSCI EAFE	Developed Non-US Equity	3.85%	19.52%	29.58%	3.80%	(3.12%)	6.57%	2.94%
MSCI Emerging Mkts.	Emerging Non-US Equity	9.09%	21.04%	64.88%	19.44%	8.27%	17.68%	11.70%
ML Global Ex-US Bond	Global Bonds	2.72%	7.25%	6.49%	16.00%	9.96%	7.03%	6.75%
Euro	Currency	1.86%	4.21%	5.16%	4.06%	4.89%	3.31%	3.22%
Japanese Yen	Currency	3.61%	7.76%	1.25%	18.57%	9.66%	4.24%	1.75%
British Pound	Currency	(1.87%)	(2.88%)	11.24%	(10.27%)	(5.04%)	(2.44%)	(0.29%)

US Fixed Income Indices

ML 3-month T-Bill	Cash	0.02%	0.07%	0.17%	0.39%	2.82%	3.11%	3.11%
Barclays US Aggregate	Core Bonds	1.05%	3.74%	5.72%	10.56%	6.41%	5.13%	6.30%
Barclays US Universal	Core Bonds Plus	1.36%	4.48%	7.97%	10.91%	6.12%	5.15%	6.42%
ML US Gov't/Credit	Core Bonds	1.14%	4.16%	4.74%	11.46%	6.25%	4.92%	6.32%
ML US Corporate Master	Corporate Bonds	2.00%	8.32%	18.32%	20.16%	5.36%	4.48%	6.45%
Barclays Mortgage Backed Securitie	Mortgages	0.80%	2.31%	5.29%	9.85%	7.40%	5.92%	6.44%
Merrill Lynch High Yield Master II	High Yield Bonds	5.98%	14.82%	48.54%	22.35%	5.21%	6.05%	6.04%

(not annualized if less than 1 year)
Source: mpi Stylus
Preliminary data

STANCERA

MONTHLY PERFORMANCE REVIEW

PERIOD ENDING SEPTEMBER 30, 2009

PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	POLICY RANGE
DOMESTIC EQUITIES	550,831,410	46.4%	46.4%	36.5% - 56.3%
INTERNATIONAL EQUITIES	251,781,831	21.2%	20.0%	16.0% - 24.0%
FIXED INCOME	353,669,797	29.8%	32.1%	29.1% - 35.1%
REAL ESTATE	14,966,105	1.3%	1.5%	0.0% - 3.0%
SECURITY LENDING	(2,913,907)	-0.2%	0.0%	0.0% - 0.0%
CASH (equity managers only)	17,998,369	1.5%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,186,333,605	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	15.3%	14.5%
BGI - R1000 VALUE INDEX	3.2%	3.0%
DELAWARE - LARGE CAP GROWTH	9.3%	8.9%
LOOMIS SAYLES - LARGE CAP GROWTH	5.6%	5.9%
CAPITAL PROSPECTS	5.2%	5.0%
LEGATO CAPITAL	4.1%	4.3%
BNY - S&P 500 INDEX	4.7%	4.8%
LSV ASSET MGMT - INTL EQ	11.2%	10.0%
PYRAMIS - INTL EQ	10.5%	10.0%
DODGE & COX FIXED INCOME	29.8%	32.1%
INVESCO - GLOBAL REIT	1.3%	1.5%
SECURITY LENDING	-0.2%	0.0%
TOTALS	100.0%	100.0%

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING SEPT. 30, 2009
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION

ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
MARKET VALUE					
DOMESTIC EQUITIES	550,831,410	522,632,220	5.40%	483,926,027	13.83%
INTERNATIONAL EQUITIES	251,781,831	238,914,457	5.39%	196,538,745	28.11%
FIXED INCOME	353,669,797	351,296,433	0.68%	416,874,850	-15.16%
REAL ESTATE	14,966,105	14,206,287	5.35%	16,409,347	-8.80%
SECURITIES LENDING	(2,913,907)	(2,896,406)			
CASH (equity managers only)	17,998,369	19,565,210	-8.01%	26,768,120	-32.76%
TOTAL PORTFOLIO	1,186,333,605	1,143,718,202	3.73%	1,140,517,089	4.02%
ASSET ALLOCATION (ACTUAL)					
DOMESTIC EQUITIES	46.43%	45.70%	0.7%	42.43%	4.0%
INTERNATIONAL EQUITIES	21.22%	20.89%	0.3%	17.23%	4.0%
FIXED INCOME	29.81%	30.72%	-0.9%	36.55%	-6.7%
REAL ESTATE	1.26%	1.24%	0.0%	1.44%	-0.2%
SECURITY LENDING	-0.25%	-0.25%	0.0%		
CASH (equity managers only)	1.52%	1.71%	-0.2%	2.35%	-0.8%
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 SEPT. 30, 2009

PRELIMINARY BASIS

MANAGER ALLOCATION

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	POLICY RANGE
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	182,022,206	15.3%	14.5%	11.5% - 17.5%
BGI - R1000 VALUE INDEX	38,326,319	3.2%	3.0%	2.0% - 4.0%
DELAWARE - LARGE CAP GROWTH	110,045,743	9.3%	8.9%	6.9% - 10.9%
LOOMIS SAYLES - LARGE CAP GROWTH	66,364,510	5.6%	5.9%	4.5% - 7.3%
CAPITAL PROSPECTS - SMALL CAP VALUE	61,681,061	5.2%	5.0%	3.9% - 6.1%
LEGATO CAPITAL - SMALL CAP GROWTH	48,716,549	4.1%	4.3%	2.9% - 5.7%
BNY - S&P 500 INDEX	56,278,860	4.7%	4.8%	3.8% - 5.8%
TOTAL DOMESTIC EQUITIES	563,435,247	47.5%	46.4%	
FIXED INCOME				
DODGE & COX	353,669,797	29.8%	32.1%	29.1% - 35.1%
TOTAL FIXED INCOME	353,669,797	29.8%	32.1%	
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	132,512,408	11.2%	10.0%	8.0% - 12.0%
PYRAMIS	124,663,784	10.5%	10.0%	8.0% - 12.0%
TOTAL INTERNATIONAL EQUITIES	257,176,192	21.7%	20.0%	
REAL ESTATE				
INVESCO	14,966,105	1.3%	1.5%	0.0% - 3.0%
TOTAL REAL ESTATE	14,966,105	1.3%	1.5%	
SECURITIES LENDING	(2,913,907)	-0.2%	0.0%	0.0% - 0.0%
TOTAL StanCERA PORTFOLIO	1,186,333,434	100.0%	100.0%	

STANCERA

MONTHLY PERFORMANCE REVIEW
PERIOD ENDING 9/30/09

PRELIMINARY

TOTAL FUND

	CASH	BONDS	EQUITIES	TOTAL
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	7,213,377		174,808,828	182,022,206
BGI - R1000 VALUE INDEX	6,221		38,320,098	38,326,319
DELAWARE - LARGE CAP GROWTH	1,717,764		108,327,979	110,045,743
LOOMIS SAYLES - LARGE CAP GROWTH	774,936		65,589,574	66,364,510
CAPITAL PROSPECTS - SMALL CAP VALUE	2,004,192		59,676,869	61,681,061
LEGATO CAPITAL - SMALL CAP GROWTH	887,346		47,829,203	48,716,549
BNY - S&P 500 INDEX	171		56,278,860	56,279,032
TOTAL DOMESTIC EQUITIES	12,604,008		550,831,410	563,435,418
FIXED INCOME				
DODGE & COX	10,641,062	343,028,734		353,669,797
TOTAL FIXED INCOME	10,641,062	343,028,734		353,669,797
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	3,659,698		128,852,711	132,512,408
PYRAMIS	1,734,664		122,929,120	124,663,784
TOTAL INTERNATIONAL EQUITIES	5,394,361		251,781,831	257,176,192
REAL ESTATE				
INVESCO	0		14,966,105	14,966,105
TOTAL REAL ESTATE	0		14,966,105	14,966,105
SECURITIES LENDING	(2,913,907)			(2,913,907)
TOTAL STANCERA PORTFOLIO	25,725,525	343,028,734	817,579,346	1,186,333,605
	2.2%	28.9%	68.9%	100.0%

STANCERA

MONTHLY PERFORMANCE REVIEW

PERIOD ENDING SEPT. 30, 2009

PRELIMINARY BASIS

CURRENT PERFORMANCE

	MARKET VALUE	SEPT	ALPHA	AUGUST	ALPHA	FISCAL YTD	ALPHA
DOMESTIC EQUITIES							
DODGE & COX - LARGE CAP VALUE	**174,808,828**	**4.79%**	**0.93%**	**4.28%**	**-0.95%**	**19.23%**	**0.99%**
RUSSELL 1000 VALUE		*3.86%*		*5.23%*		*18.24%*	
BGI - R1000 VALUE INDEX*	**38,320,098**	**3.89%**	**0.03%**	*5.23%*	**0.00%**	**9.32%**	**0.03%**
RUSSELL 1000 VALUE		*3.86%*		*5.23%*		*9.29%*	
DELAWARE - LARGE CAP GROWTH	**108,327,979**	**4.84%**	**0.59%**	**1.37%**	**-0.70%**	**12.56%**	**-1.41%**
RUSSELL 1000 GROWTH		*4.25%*		*2.07%*		*13.97%*	
LOOMIS SAYLES - LARGE CAP GROWTH	**65,589,574**	**5.36%**	**1.11%**	**1.40%**	**-0.67%**	**13.09%**	**-0.88%**
RUSSELL 1000 GROWTH		*4.25%*		*2.07%*		*13.97%*	
CAPITAL PROSPECTS*	**59,676,869**	**5.48%**	**0.46%**	**4.25%**	**-0.48%**	**20.58%**	**-2.12%**
RUSSELL 2000 VALUE		*5.02%*		*4.73%*		*22.70%*	
LEGATO CAPITAL**	**47,829,203**	**6.64%**	**0.07%**	**1.24%**	**0.26%**	**15.11%**	**-0.84%**
*RUSSELL 2000 GROWTH***		*6.57%*		*0.98%*		*15.95%*	
BNY - S&P 500 INDEX	**56,278,860**	**3.74%**	**0.01%**	**3.61%**	**0.00%**	**15.61%**	**0.00%**
S&P 500		*3.73%*		*3.61%*		*15.61%*	
TOTAL DOMESTIC EQUITY	**550,831,410**	**4.93%**	**0.74%**	**3.10%**	**-0.47%**	**15.87%**	**-0.44%**
Russell 3000 Index		*4.19%*		*3.57%*		*16.31%*	
FIXED INCOME							
DODGE & COX	**353,669,797**	**1.69%**	**0.64%**	**1.46%**	**0.42%**	**6.07%**	**2.33%**
BARCLAYS US AGGREGATE BOND		*1.05%*		*1.04%*		*3.74%*	
INTERNATIONAL INVESTMENTS							
LSV ASSET MGMT	**128,852,711**	**5.04%**	**-0.12%**	**5.71%**	**1.99%**	**23.32%**	**3.55%**
MSCI ACWI Free ex-US		*5.16%*		*3.72%*		*19.77%*	
PYRAMIS	**122,929,120**	**5.64%**	**0.48%**	**4.37%**	**0.65%**	**20.19%**	**0.42%**
MSCI ACWI Free ex-US		*5.16%*		*3.72%*		*19.77%*	
TOTAL INTERNATIONAL EQUITY	**251,781,831**	**5.33%**	**0.17%**	**5.06%**	**1.34%**	**21.80%**	**2.03%**
MSCI ACWI Free ex-US		*5.16%*		*3.72%*		*19.77%*	
REAL ESTATE							
INVESCO	**14,966,105**	**5.35%**	**-0.27%**	**6.55%**	**-1.10%**	**22.72%**	**-2.37%**
FTSE EPRA/NAREIT Global REIT		*5.62%*		*7.65%*		*25.09%*	
SECURITIES LENDING							
BNY MELLON	**(2,913,907)**						
CASH and SHORT-TERM INVESTMENTS							
CASH	**17,998,369**	**0.02%**	**0.00%**	**0.03%**	**0.01%**	**0.08%**	**0.02%**
90 DAY TREASURY BILL		*0.02%*		*0.02%*		*0.06%*	
TOTAL StanCERA Fund	**1,186,333,605**	**4.04%**	**0.54%**	**3.05%**	**0.24%**	**14.03%**	**0.85%**
Policy Index		*3.50%*		*2.81%*		*13.18%*	
Actuary Rate of Assumption (8.16%)		*0.66%*	**3.38%**	*0.66%*	**2.39%**	*2.00%*	**12.03%**
Actuary Rate of Inflation (4.00%)		*0.33%*	**3.71%**	*0.33%*	**2.72%**	*1.00%*	**13.03%**