



StanCERA

**Monthly Investment Performance
Summary**

**Provided by
Strategic Investment Solutions Inc.**

October 2009

U.S. EQUITY

The Dow crossed over 10,000 during October seven months after it hit a 12-year low of 6,547 on March 9th. The comeback by the stock market is the most visible sign yet that investors believe that the economy is recovering from financial crisis and recession. Economic statistics and third-quarter earnings reports continue to reinforce the basic nature of today's environment: moderate growth at a low level of output, producing comparably slow growing sales for companies at a similarly low level of revenue. Profits continue to be good but not great due to companies managing costs and inventory. The most recently released third quarter earnings reports are beating consensus about two-thirds of the time but more than half of the time there is a shortfall in revenues.

October 2009 was the first monthly decline since February for U.S. equities. Growth outperformed value (within large caps) and large caps outperformed small caps. The Russell 1000 Growth Index was down -1.3% for the month of October, while the Russell 1000 Value Index was down -3.1%. In the small cap class, the Russell 2000 Growth Index was down -6.9% and the Russell 2000 Value Index was down -6.6%. The S&P 500 Index ended the month down -1.9% with a trailing 12-month P/E ratio of 91.7 (estimated P/E ratio of 17.3 on forward looking twelve-month operating earnings) and a dividend yield of 2.3%.

Corporate merger activity highlights for the month included: Cisco will buy videoconferencing company Tandberg for \$3 billion and will also buy wireless networking gear maker Starent Networks for \$2.9 billion; Emerson Electric will acquire network equipment technology provider Avocent for about \$1.2 billion; Global Infrastructure Partners is close to an agreement to acquire Gatwick airport for about \$2.3 billion; Switzerland based Adecco acquired MPS Group, a specialist in placing professional staff, for \$1.3 billion; Volkswagen will pay \$5.8 billion for 49.9% of Porsche's auto unit; Invesco will buy

Morgan Stanley's retail investment management business for \$1.5 billion; Bank of America will reportedly sell First Republic Corp. of America for more than \$1 billion; Korea National Oil will buy Harvest Energy Trust for \$3.9 billion; Proctor & Gamble is in early talks to acquire Sara Lee's international household products unit; and, Deutsche Bank, Germany's largest bank, agreed to buy wealth manager Sal Oppenheim Group for \$1.5 billion.

FIXED INCOME

GDP results for the 3rd quarter grew at a 3.5% pace, the best showing in two years and a confirmation that the U.S. returned to growth after shrinking by 0.7% in the 2nd quarter. It should be noted that almost all of the growth was attributed to the government sector with the consumer and businesses contributing little or nothing.

The Labor Department reported that U.S. employers cut 263,000 jobs in September, lifting the unemployment rate to a 26-year high of 9.8% from 9.7% in August.

The Federal Reserve's latest snapshot of regional economic conditions finds that the economy has shown signs of stabilizing or modestly improving over the last six weeks.

Long-term interest rates were steady in the month of October. The bellwether 10-year Treasury note ended the month yielding 3.39% down slightly from 3.40% at the close of September. At month-end, the 30-year long bond yield was 4.24% and the 3-month T-bill was at 0.05%. The Barclays Capital US Aggregate Index was up by +0.49% in October and is now up +6.24% year-to-date in 2009. Once again, high yield bonds were the strongest sector in October up by +1.79% as measured by the Merrill Lynch High Yield Master II Index.

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

*The Commerce Dept. reported that personal spending in August jumped 1.3%, the largest gain since October 2001, after a revised 0.3% increase in July.

*Personal saving totaled 3% of disposable income in August down from 4% in July.

*New U.S. factory orders fell by 0.8% in August the largest amount in 5 months.

*The Institute for Supply Management's services index rose to 50.9 in September from 48.4 in August, the first time it was above 50 since August 2008.

*The National Retail Federation forecasts that this year's holiday sales for the combined November-December months will decline 1% to \$437 billion.

*The Labor Dept. reported that the Consumer Price Index rose 0.2% in September after increasing by 0.4% in August.

*The Philadelphia Fed reported that its business activity index slipped to 11.5 in October from 14.1 in September.

*Industrial production rose by 0.7% in September, the third consecutive month of increases.

*Average weekly wages have fallen 1.4% this year for private-sector workers through September, after adjusting for inflation, to \$616.

*Crude oil futures during October rose to above \$80 a barrel as the weaker dollar and rising U.S. stocks improved sentiment in energy trading.

*Global IT spending in 2009 is expected to decline by 5.2% to \$3.3 trillion from a year ago.

*The National Association of Home Builders/Wells Fargo sentiment index slipped to 18 in October from 19 in September, the 1st decline since June.

*The Commerce Dept. reported that construction of new homes and apartments rose a less-than-expected 0.5% in September to a seasonally adjusted annual rate of 599,000 units.

*The Commerce Dept. reported that inventory at department stores dropped by 8.2% in the 12

months through August to the lowest level since 1992.

*The Conference Board reported that its index of leading indicators rose by 1% in September after a 0.4% increase in August.

*The National Association of Realtors reported that sales of existing homes increased 9.4% to a seasonally adjusted annual rate of 5.57 million in September, the highest level since July 2007.

*The national median price of existing homes declined 8.5% to \$174,900 in September from a year earlier.

*The Commerce Dept. reported that new orders for U.S. durable goods rose 1% in September following a 2.6% decline in August.

*The Commerce Dept. reported consumer spending fell 0.5% in September, the first decline in five months and the largest decline in nine months.

*The U.S. retail vacancy rate rose from 6.7% at the end of the 4th quarter 2008 to 7.6% at the end of the 3rd quarter of 2009.

Economic statistics released in October which had been decidedly better the past couple of months started to show signs of tailing off as the large stimulus spending wanes.

The Reuters/University of Michigan Surveys of Consumers reported that its final index of consumer sentiment for October fell to 70.6 from 73.5 in September. The Conference Board reported that its index of consumer attitudes slipped to a 26-year low of 47.7 in October.

NON-U.S. MARKETS

The UK unemployment rate was unchanged at 7.9% in the three months through August. Even so, this reading is the highest since 1996 and is up from 5.2% just over a year ago. The British Retail Consortium's retail sales monitor signaled that activity may have firmed in September. The year-over-year gain in total sales rose 2.7% on the month to 4.9%, its strongest reading since April.

Industrial production for the overall eurozone rose 0.9% in August, its fourth consecutive gain. German investor sentiment eroded slightly in October. The ZEW expectations index fell 1.7 points to 56.0, its first decline in three months. Meanwhile, CPI inflation for the overall eurozone printed at -0.3% year-over-year in September. Overall inflation has been negative for four straight months.

The Bank of Japan kept its overnight lending rate unchanged at 0.10% this month. Industrial production rose 1.6% in August and output has now risen for six consecutive months. Japan's corporate service price index declined a record 3.5% from a year earlier in August, posting the 11th consecutive year-on-year drop, the Bank of Japan said.

China's growth rate rose to 8.9% in the 3rd quarter, following a 7.9% rate in the 2nd quarter.

Non-U.S. Developed markets were lower in the month of October. The MSCI ACWI Ex-U.S. was down by -1.2% (US dollars) in October. Developed stocks (EAFE) were down by -1.2% while Emerging Markets were up by +0.1%.

CONCLUSIONS

While U.S. Federal Reserve liquidity is flowing into asset prices, these pressures are only offsetting record unused capacity in labor, housing and equipment. On a fundamental business outlook and without all of this government support where are we likely to be over the next 12 months? Abraham Gulkowitz of The Punch Line states, "At the end of the day, small business hold most of the jobs in this country and they still can't get their hands around this situation. Bank lending to the private sector has plunged. Poor job prospects, tight credit conditions and massive erosion in households' wealth seem to cap the outlook for spending."

Equities have risen considerably since the March lows with U.S. Small Cap Value stocks leading the way up about 80%. The market rally has certainly been welcome. However, we are a bit surprised by its strength over this short period of time recognizing that the economy has stabilized but also is most likely poised for a sub-par recovery out of this deep recession. We believe that this rally has currently priced in a more optimistic scenario for growth (a standard 5-6% recovery out of a recession versus a more likely 3% sub-par recovery out of this downturn).

Strategic Investment Solutions has just reduced our expected returns for developed market equities by 90 basis points (US Large Cap and Developed Non-US Equities, 9.4% to 8.5% and Emerging Market Equities by 70 basis points, 9.9% to 9.2%) given the strength of the equity market rally these past six months. U.S. Core Fixed Income expected returns were also reduced by 50 basis points from 4.5% to 4.0%. We are thus cautioning clients to expect a lower rate of return on their existing target portfolio going forward versus expectations from one year ago.

MARKET UPDATE

For October 2009

US Equity Indices	Style	Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Russell 3000	Broad US Equity	(2.57%)	5.14%	18.07%	10.83%	(6.98%)	0.71%	(0.14%)
Russell 200	Large Cap Equity	(1.37%)	5.28%	15.44%	8.52%	(6.86%)	0.07%	(2.24%)
Russell 200 Growth	Large Cap Growth	(0.37%)	5.11%	23.16%	15.71%	(3.41%)	1.01%	(4.40%)
Russell 200 Value	Large Cap Value	(2.38%)	5.47%	7.76%	1.36%	(10.26%)	(0.92%)	(0.32%)
S&P 500	Large Cap Equity	(1.86%)	5.48%	17.05%	9.80%	(7.02%)	0.33%	(0.95%)
Russell 1000	Large Cap Equity	(2.21%)	5.45%	18.41%	11.20%	(6.84%)	0.71%	(0.46%)
Russell 1000 Growth	Large Cap Growth	(1.35%)	4.97%	25.39%	17.51%	(4.05%)	1.27%	(3.39%)
Russell 1000 Value	Large Cap Value	(3.06%)	5.95%	11.33%	4.78%	(9.79%)	(0.05%)	1.70%
Russell Mid Cap	Mid Cap Equity	(4.40%)	5.93%	26.79%	18.75%	(6.71%)	2.40%	5.09%
Russell Mid Cap Growth	Mid Cap Growth	(4.01%)	4.61%	31.62%	22.48%	(5.61%)	2.22%	1.01%
Russell Mid Cap Value	Mid Cap Value	(4.77%)	7.21%	21.49%	14.52%	(8.39%)	2.05%	6.59%
Russell 2000	Small Cap Equity	(6.79%)	1.41%	14.12%	6.46%	(8.51%)	0.59%	4.11%
Russell 2000 Growth	Small Cap Growth	(6.95%)	0.13%	20.15%	11.34%	(6.88%)	0.95%	0.12%
Russell 2000 Value	Small Cap Value	(6.64%)	2.68%	8.63%	1.96%	(10.26%)	0.08%	7.53%
DJW US REIT Index	REITS	(4.54%)	17.10%	12.32%	(0.26%)	(16.77%)	(0.87%)	9.44%

Non-US Indices

MSCI ACWI Ex-US	Broad Non-US Equity	(1.23%)	7.73%	35.27%	34.79%	(2.49%)	7.58%	3.94%
MSCI AC World Index	Global Equity	(1.53%)	6.75%	27.33%	23.42%	(4.39%)	4.27%	1.38%
MSCI EAFE	Developed Non-US Equity	(1.25%)	8.15%	27.97%	28.41%	(4.74%)	5.59%	2.44%
MSCI Emerging Mkts.	Emerging Non-US Equity	0.13%	8.88%	65.10%	64.63%	6.66%	17.16%	11.48%
ML Global Ex-US Bond	Global Bonds	0.14%	5.15%	6.63%	18.75%	9.63%	6.31%	6.78%
Euro	Currency	0.94%	4.07%	6.14%	16.36%	4.95%	3.01%	3.45%
Japanese Yen	Currency	(1.09%)	5.16%	0.14%	8.65%	8.98%	3.24%	1.43%
British Pound	Currency	3.06%	(0.57%)	14.65%	2.02%	(4.75%)	(2.09%)	0.05%

US Fixed Income Indices

ML 3-month T-Bill	Cash	0.02%	0.07%	0.19%	0.30%	2.69%	3.09%	3.07%
Barclays US Aggregate	Core Bonds	0.49%	2.60%	6.24%	13.79%	6.35%	5.05%	6.31%
Barclays US Universal	Core Bonds Plus	0.58%	3.13%	8.60%	15.71%	6.06%	5.08%	6.43%
Barclays US Gov't/Credit	Core Bonds	0.24%	2.58%	4.99%	14.60%	6.11%	4.79%	6.32%
ML US Corporate Master	Corporate Bonds	0.82%	5.06%	19.28%	30.79%	5.34%	4.44%	6.50%
Barclays Mortgage Backed Securitie	Mortgages	0.71%	2.20%	6.04%	12.05%	7.40%	5.90%	6.45%
Merrill Lynch High Yield Master II	High Yield Bonds	1.79%	10.06%	51.19%	48.79%	5.32%	6.02%	6.28%

(not annualized if less than 1 year)

Source: mpi Stylus

Preliminary data

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING OCTOBER 31, 2009
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES	536,878,990	46.0%	46.4%	36.5% - 56.3%
INTERNATIONAL EQUITIES	248,454,666	21.3%	20.0%	16.0% - 24.0%
FIXED INCOME	353,288,008	30.3%	32.1%	29.1% - 35.1%
REAL ESTATE	14,863,663	1.3%	1.5%	0.0% - 3.0%
SECURITY LENDING	(2,948,909)	-0.3%	0.0%	0.0% - 0.0%
CASH (equity managers only)	17,122,750	1.5%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,167,659,168	100.0%	100.0%	

	<u>CURRENT</u>	<u>TARGET</u>
DODGE & COX - LARGE CAP VALUE	15.2%	14.5%
BGI - R1000 VALUE INDEX	3.2%	3.0%
DELAWARE - LARGE CAP GROWTH	9.4%	8.9%
LOOMIS SAYLES - LARGE CAP GROWTH	5.6%	5.9%
CAPITAL PROSPECTS	5.0%	5.0%
LEGATO CAPITAL	3.9%	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	30.3%	32.1%
INVESCO - GLOBAL REIT	1.3%	1.5%
SECURITY LENDING	-0.3%	0.0%
TOTALS	100.0%	100.0%

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING OCT. 31, 2009
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION

<u>ASSET CLASS</u> <u>MARKET VALUE</u>	<u>CURRENT MONTH</u>	<u>PRIOR MONTH</u>	<u>% CHANGE *</u>	<u>PRIOR YEAR</u>	<u>% CHANGE *</u>
DOMESTIC EQUITIES	536,878,990	550,831,410	-2.53%	395,498,599	35.75%
INTERNATIONAL EQUITIES	248,454,666	251,781,831	-1.32%	152,354,920	63.08%
FIXED INCOME	353,288,008	353,669,797	-0.11%	402,441,978	-12.21%
REAL ESTATE	14,863,663	14,966,105	-0.68%	12,610,431	17.87%
SECURITIES LENDING	(2,948,909)	(2,913,907)			
<u>CASH (equity managers only)</u>	<u>17,122,750</u>	<u>17,998,198</u>	<u>-4.86%</u>	<u>25,099,876</u>	<u>-31.78%</u>
TOTAL PORTFOLIO	1,167,659,168	1,186,333,433	-1.57%	988,005,805	18.18%
ASSET ALLOCATION (ACTUAL)					
DOMESTIC EQUITIES	45.98%	46.43%	-0.5%	40.03%	5.9%
INTERNATIONAL EQUITIES	21.28%	21.22%	0.1%	15.42%	5.9%
FIXED INCOME	30.26%	29.81%	0.4%	40.73%	-10.5%
REAL ESTATE	1.27%	1.26%	0.0%	1.28%	0.0%
SECURITY LENDING	-0.25%	-0.25%	0.0%		
<u>CASH (equity managers only)</u>	<u>1.47%</u>	<u>1.52%</u>	<u>-0.1%</u>	<u>2.54%</u>	<u>-1.1%</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 OCT. 31, 2009**
 PRELIMINARY BASIS

MANAGER ALLOCATION

<u>ASSET CLASS</u>	<u>MARKET VALUE</u>	<u>PERCENT</u>	<u>POLICY</u>	<u>TARGET</u>	<u>RANGE</u>
DOMESTIC EQUITIES					
DODGE & COX - LARGE CAP VALUE	177,135,358	15.2%	14.5%		11.5% - 17.5%
BGI - R1000 VALUE INDEX	37,157,815	3.2%	3.0%		2.0% - 4.0%
DELAWARE - LARGE CAP GROWTH	109,399,302	9.4%	8.9%		6.9% - 10.9%
LOOMIS SAYLES - LARGE CAP GROWTH	65,489,469	5.6%	5.9%		4.5% - 7.3%
CAPITAL PROSPECTS - SMALL CAP VALUE	58,359,867	5.0%	5.0%		3.9% - 6.1%
LEGATO CAPITAL - SMALL CAP GROWTH	46,067,919	3.9%	4.3%		2.9% - 5.7%
BNY - S&P 500 INDEX	55,236,088	4.7%	4.8%		3.8% - 5.8%
TOTAL DOMESTIC EQUITIES	548,845,818	47.0%	46.4%		
FIXED INCOME					
DODGE & COX	353,288,008	30.3%	32.1%		29.1% - 35.1%
TOTAL FIXED INCOME	353,288,008	30.3%	32.1%		
INTERNATIONAL INVESTMENTS					
LSV ASSET MGMT.	130,656,276	11.2%	10.0%		8.0% - 12.0%
PYRAMIS	122,954,141	10.5%	10.0%		8.0% - 12.0%
TOTAL INTERNATIONAL EQUITIES	253,610,417	21.7%	20.0%		
REAL ESTATE					
INVESCO	14,863,663	1.3%	1.5%		0.0% - 3.0%
TOTAL REAL ESTATE	14,863,663	1.3%	1.5%		
SECURITIES LENDING	(2,948,909)	-0.3%	0.0%		0.0% - 0.0%
TOTAL StanCERA PORTFOLIO	1,167,658,997	100.0%	100.0%		

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING 10/31/09
PRELIMINARY

	TOTAL FUND			
	CASH	BONDS	EQUITIES	TOTAL
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	7,050,743		170,084,615	177,135,358
BGI - R1000 VALUE INDEX	6,221		37,151,594	37,157,815
DELAWARE - LARGE CAP GROWTH	1,373,345		108,025,957	109,399,302
LOOMIS SAYLES - LARGE CAP GROWTH	314,592		65,174,877	65,489,469
CAPITAL PROSPECTS - SMALL CAP VALUE	2,229,886		56,129,981	58,359,867
LEGATO CAPITAL - SMALL CAP GROWTH	992,040		45,075,879	46,067,919
BNY - S&P 500 INDEX	171		55,236,088	55,236,259
TOTAL DOMESTIC EQUITIES	11,966,999		536,878,990	548,845,989
FIXED INCOME				
DODGE & COX	9,891,121	343,396,887		353,288,008
TOTAL FIXED INCOME	9,891,121	343,396,887		353,288,008
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	3,355,621		127,300,655	130,656,276
PYRAMIS	1,800,130		121,154,011	122,954,141
TOTAL INTERNATIONAL EQUITIES	5,155,751		248,454,666	253,610,417
REAL ESTATE				
INVESCO	0		14,863,663	14,863,663
TOTAL REAL ESTATE	0		14,863,663	14,863,663
SECURITIES LENDING	(2,948,909)			(2,948,909)
TOTAL STANCERA PORTFOLIO	24,064,962	343,396,887	800,197,319	1,167,659,168

2.1% 29.4% 68.5% 100.0%

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING OCT. 31, 2009
PRELIMINARY BASIS

CURRENT PERFORMANCE

	MARKET VALUE	OCT	ALPHA	SEPT	ALPHA	FISCAL YTD	ALPHA
DOMESTIC EQUITIES							
DODGE & COX - LARGE CAP VALUE	170,084,615	-2.68%	0.38%	4.79%	0.93%	16.03%	1.41%
<i>RUSSELL 1000 VALUE</i>		-3.06%		3.86%		14.62%	
BGI - R1000 VALUE INDEX***	37,151,594	-3.05%	0.01%	3.89%	0.03%	6.15%	0.20%
<i>RUSSELL 1000 VALUE</i>		-3.06%		3.86%		5.95%	
DELAWARE - LARGE CAP GROWTH	108,025,957	-0.59%	0.76%	4.84%	0.59%	11.90%	-0.53%
<i>RUSSELL 1000 GROWTH</i>		-1.35%		4.25%		12.43%	
LOOMIS SAYLES - LARGE CAP GROWTH	65,174,877	-1.32%	0.03%	5.36%	1.11%	11.60%	-0.83%
<i>RUSSELL 1000 GROWTH</i>		-1.35%		4.25%		12.43%	
CAPITAL PROSPECTS*	56,129,981	-5.38%	1.26%	5.48%	0.46%	14.09%	-0.46%
<i>RUSSELL 2000 VALUE</i>		-6.64%		5.02%		14.55%	
LEGATO CAPITAL**	45,075,879	-5.44%	1.51%	6.64%	0.07%	8.85%	0.96%
<i>RUSSELL 2000 GROWTH**</i>		-6.95%		6.57%		7.89%	
BNY - S&P 500 INDEX	55,236,088	-1.85%	0.01%	3.74%	0.01%	13.47%	0.01%
<i>S&P 500</i>		-1.86%		3.73%		13.46%	
TOTAL DOMESTIC EQUITY	536,878,990	-2.59%	-0.02%	4.93%	0.74%	12.87%	-0.45%
<i>Russell 3000 Index</i>		-2.57%		4.19%		13.32%	
FIXED INCOME							
DODGE & COX	353,288,008	0.89%	0.40%	1.69%	0.64%	7.02%	2.77%
<i>BARCLAYS US AGGREGATE BOND</i>		0.49%		1.05%		4.25%	
INTERNATIONAL INVESTMENTS							
LSV ASSET MGMT	127,300,655	-1.40%	-0.17%	5.04%	-0.12%	21.59%	3.29%
<i>MSCI ACWI Free ex-US</i>		-1.23%		5.16%		18.30%	
PYRAMIS	121,154,011	-1.37%	-0.14%	5.64%	0.48%	18.55%	0.25%
<i>MSCI ACWI Free ex-US</i>		-1.23%		5.16%		18.30%	
TOTAL INTERNATIONAL EQUITY	248,454,666	-1.39%	-0.16%	5.33%	0.17%	20.11%	1.81%
<i>MSCI ACWI Free ex-US</i>		-1.23%		5.16%		18.30%	
REAL ESTATE							
INVESCO	14,863,663	-0.68%	0.70%	5.35%	-0.27%	21.88%	-1.48%
<i>FTSE EPRA/NAREIT Global REIT</i>		-1.38%		5.62%		23.36%	
SECURITIES LENDING							
BNY MELLON	(2,948,909)						
CASH and SHORT-TERM INVESTMENTS							
CASH	17,122,750	0.02%	0.00%	0.02%	0.00%	0.09%	0.01%
<i>90 DAY TREASURY BILL</i>		0.02%		0.02%		0.08%	
TOTAL StanCERA Fund	1,167,659,168	-1.28%	0.28%	4.04%	0.54%	12.57%	1.18%
<i>Policy Index</i>		-1.56%		3.50%		11.39%	
<i>Actuary Rate of Assumption (8.16%)</i>		0.66%	-1.94%	0.66%	3.38%	2.67%	9.90%
<i>Actuary Rate of Inflation (4.00%)</i>		0.33%	-1.61%	0.33%	3.71%	1.33%	11.24%