

An Explanation of Performance

The State Treasurer retains equity investment managers in one of four asset sub-classes: large cap, mid cap, small cap and international. In the domestic sub-classes the State Treasurer employs both active and passive investment strategies. Active strategies are intended to produce returns superior to a benchmark over an investment cycle (typically about 5 years). Passive strategies are designed to mimic the benchmark over all periods (less fees).

While there are a wide variety of benchmarks available for purposes of comparing manager performance, the State Treasurer has selected the Standard and Poor's and Frank Russell benchmarks for domestic sub-classes and the Morgan Stanley All Country World Index without the United States (ACWI ex US) as the International benchmark. Since the ACWI ex US benchmark does not exist for longer timeframes, the State Treasurer employs the Morgan Stanley EAFE and Emerging Market indices in a blend for these timeframes.

Individual manager performance may vary significantly from the benchmarks. While this may be some indication of superior or inferior performance, the State Treasurer considers a variety of other factors including style and risk characteristics in evaluating the adequacy of performance by equity investment managers.