Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Control
Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2011, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's 2010 financial statements and, in our report dated January 28, 2011, we expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2011, and its changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 and 3 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram, L.L.C.

January 31, 2012
Montgomery, Alabama

Public Employees' Individual Retirement Account
Deferred Compensation Plan
Management's Discussion and Analysis

The Public Employees' Individual Retirement Account Deferred Compensation Plan (the Plan) operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States. The following discussion provides an overview of the financial position and results of operation for the Plan as of and for the year ended September 30, 2011, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements.

Overview of the Financial Statements

The financial statements of the Plan include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Notes to the Financial Statements are also included in this report and are considered an integral part of the financial statements.

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

The *Statement of Fiduciary Net Assets* includes all assets and liabilities of the Plan and provides a snapshot of the financial position of Plan as of the end of the fiscal year. Assets are reduced by liabilities resulting in the net assets that are held in trust for the Plan's members as of the fiscal year-end.

The Statement of Changes in Fiduciary Net Assets reports all of the additions and deductions in the fiscal year for the Plan. Additions are primarily comprised of member contributions and investment income. Deductions primarily consist of distributions made by Plan participants during the fiscal year. The change in fiduciary net assets plus the beginning fiduciary net assets results in the fiduciary net assets held in trust for members at fiscal year-end.

The *Notes to the Financial Statements* are considered an integral part of the financial statements and should be read in conjunction with the financial statements. The Notes include a description of the Plan, the accounting policies used by the Plan, and notes and disclosures regarding the Plan's investments.

Comparative financial statements for the years ending September 30, 2011 and September 30, 2010 have been included below.

Summary Comparative Statement of Fiduciary Net Assets
As of September 30, 2011 and 2010

	2011	2010	Variance	% Increase/ (Decrease)
Assets				
Cash	$ 1	$ 478	$ (477)	(99.79)
Interest and Dividends Receivable	10,334,641	10,394,206	(59,565)	(0.57)
Investments	1,414,255,957	1,322,165,061	92,090,896	6.97
Invested Securities Lending Collateral	83,569,476	244,882,771	(161,313,295)	(65.87)
Total Assets	**1,508,160,075**	**1,577,442,516**	**(69,282,441)**	(4.39)
Liabilities				
Investment Purchases Payable	5,088,000	19,667	5,068,333	25,770.75
Securities Lending Collateral	83,569,476	244,882,771	(161,313,295)	(65.87)
Total Liabilities	**88,657,476**	**244,902,438**	**(156,244,962)**	(63.80)
Net Assets Held in Trust for Deferred Compensation Benefits	**$ 1,419,502,599**	**$ 1,332,540,078**	**$ 86,962,521**	6.53

Summary Comparative Statement of Changes in Fiduciary Net Assets
For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010	Variance	% Increase/ (Decrease)
Additions				
Member Contributions	$ 132,649,349	$ 118,533,403	$ 14,115,946	11.91
Interest & Dividend Income	47,972,545	47,952,720	19,825	0.04
Net Increase in Fair Value of Investments	71,631	51,517,383	(51,445,752)	(99.86)
Net Income from Securities Lending Activities	1,819,552	653,204	1,166,348	178.56
Total Additions	**182,513,077**	**218,656,710**	**(36,143,633)**	(16.53)
Deductions				
Normal Distributions	94,717,675	74,410,501	20,307,174	27.29
Emergency Withdrawals	832,881	796,440	36,441	4.58
Total Deductions	**95,550,556**	**75,206,941**	**20,343,615**	27.05
Increase in Fiduciary Net Assets	**86,962,521**	**143,449,769**	**(56,487,248)**	(39.38)
Net Assets Held in Trust for Deferred Compensation Benefits at Beginning of Year	1,332,540,078	1,189,090,309	143,449,769	12.06
Net Assets Held in Trust for Deferred Compensation Benefits at End of Year	**$ 1,419,502,599**	**$ 1,332,540,078**	**$ 86,962,521**	6.53

Financial Highlights

- For the fiscal year ending September 30, 2011, the highest percentage of investments held in trust for plan members was in corporate bonds (30%), U.S. government guaranteed securities (19%), and common and preferred stock (15%).

- The Plan's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Fund's investment custodian, was 4.23% for fixed securities and 1.03% for equity securities.

- During the fiscal year, net securities lending income increased by 178.56%. This was primarily the result of a 62.77% increase in securities lending revenue and a 66.85% decrease in borrower rebates, a component of securities lending expense. The increase in securities lending revenue was driven by the demand for securities lending throughout the market and an effort by the State Street lending team to lock in some longer term loans and to focus more on the fee based non-cash collateral loans. Borrower rebates declined due to a decline in short-term interest rates and an aforementioned shift to non-cash collateral over cash collateral where the borrower rebates are derived. The other component of securities lending expense, management fee expense, increased 64.52% this fiscal year as a direct result of the increase in securities lending revenue.

- Member contributions increased by 11.91% during the fiscal year mainly as a result of an increase in the amount of rollovers from Deferred Retirement Option Plans.

- Member distributions increased by 27.05% during the 2011 fiscal year. This increase was mainly a result of rollovers by members to other eligible plans such as a Section 401(k), 403(b), 457 plan, Roth IRA, or a Traditional IRA.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Fiduciary Net Assets
September 30, 2011 with comparative amounts at September 30, 2010

	2011	2010
Assets		
Cash	**$ 1**	$ 478
Interest and Dividends Receivable	**10,334,641**	10,394,206
Investments, at Fair Value (Note 2)		
Commercial Paper	**160,590,271**	193,690,615
Money Market Funds	**77,186,608**	43,889,603
U. S. Government Guaranteed Bonds	**269,049,351**	254,343,826
U. S. Agency Securities	**94,851,206**	126,426,921
Mortgage-backed Securities	**146,254,651**	100,974,038
Corporate Bonds	**417,093,147**	361,512,575
Private Placements	**31,811,026**	43,411,643
Common and Preferred Stocks	**217,419,697**	197,915,840
Total Investments	**1,414,255,957**	1,322,165,061
Invested Securities Lending Collateral	**83,569,476**	244,882,771
Total Assets	**1,508,160,075**	1,577,442,516
Liabilities		
Investment Purchases Payable	**5,088,000**	19,667
Securities Lending Collateral	**83,569,476**	244,882,771
Total Liabilities	**88,657,476**	244,902,438
Net Assets Held in Trust for Deferred Compensation Benefits	**$ 1,419,502,599**	$ 1,332,540,078

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2011 with comparative amounts shown for 2010

	2011	2010
Additions		
Member Contributions	**$ 132,649,349**	$ 118,533,403
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**47,972,545**	47,952,720
Net Increase in Fair Value of Investments	**71,631**	51,517,383
Total Investment Income from Investing Activities	**48,044,176**	99,470,103
From Securities Lending Activities		
Securities Lending Income	**2,474,871**	1,520,443
Less Securities Lending Expenses:		
Borrower Rebates	**194,641**	587,234
Management Fees	**460,678**	280,005
Total Securities Lending Expenses	**655,319**	867,239
Income from Securities Lending Activities, Net	**1,819,552**	653,204
Net Investment Income	**49,863,728**	100,123,307
Total Additions	**182,513,077**	218,656,710
Deductions		
Normal Distributions	**94,717,675**	74,410,501
Emergency Withdrawals	**832,881**	796,440
Total Deductions	**95,550,556**	75,206,941
Change in Net Assets	**86,962,521**	143,449,769
Net Assets Held in Trust for Deferred Compensation Benefits:		
Beginning of Year	**1,332,540,078**	1,189,090,309
End of Year	**$ 1,419,502,599**	$ 1,332,540,078

See accompanying Notes to the Financial Statements.

Public Employees' Individual Retirement Account Fund
Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2011

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF or "The Board") Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provisions of Act 86-685 of the 1986 Legislature to afford the PEIRAF members the greatest possible tax benefits under the federal income tax laws. The PEIRAF/DCP operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States and began receiving deferred portions of employees' income on January 1, 1987. The responsibility for the general administration and operation of the PEIRAF/DCP is vested in its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB) pronouncements, the PEIRAF/DCP is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

Effective January 1, 2011, each member may defer a maximum of $16,500 per calendar year. Any member, age 50 and older, may make additional deferrals of $5,500 for calendar year 2011. A member may "catch-up" unused eligible amounts for one to three years if the member did not defer the maximum deferral amount in the years beginning with 1986 and was eligible to participate. In order to make these additional deferrals ("catch-up" deferrals), a member must be within three years of normal retirement and be eligible for an unreduced pension. PEIRAF/DCP investments are participant-directed in either an S&P 500 Index Fund or in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

All members of the Teachers' Retirement System of Alabama, Employees' Retirement System of Alabama, Judicial Retirement Fund, and employees of employers eligible to participate in the Employees' Retirement System pursuant to provisions of Section 36-27-6, *Code of Alabama 1975,* and public officials and employees of the State of Alabama or any political subdivision thereof (collectively, participating employers) are members of the PEIRAF/DCP and are eligible to participate. As of September 30, 2011, there were 34,987 participants.

Effective October 1, 1997, the PEIRAF/DCP adopted Trust status in compliance with The Small Business Job Protection Act of 1996. Deferred income and investment earnings are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository

B. Cash, Continued

defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the cash flows in accordance with standards of the GASB. Subsequent events were evaluated by management through the date the financial statements were available to be issued.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the secretary-treasurer of the Employees' Retirement System, in bonds, mortgage-backed securities, common and preferred stocks, or other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

All investments are carried at fair value except money market securities with a remaining maturity of one year or less at the time of purchase which are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are reported based on estimated future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income posted to member accounts was at an annual rate of 4.39 percent for the fixed investment option. Income posted to member accounts was at an annual rate of 1.04 percent for the stock investment option.

F. Administrative Costs

Under the provisions of Legislative Act 2001-1061, the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the Teachers' Retirement System and the Employees' Retirement System.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. Internal Revenue Code and Regulations require that distributions to the member begin no later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service. Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

H. Comparative Statements

The basic financial statements include the prior year Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets (Statements) for comparative purposes only. Prior year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the PEIRAF/DCP's prior year financial report from which the prior year Statements were derived.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from these estimates.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEIRAF/DCP's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of

A. Investment Risks, Continued

the PEIRAF/DCP, all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The PEIRAF/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP's name except for securities in the Securities Lending Program.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of the Fund's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Fund may hedge against the possible adverse effects of currency fluctuations on the Fund's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S & P index fund is determined by member elections.

A. Investment Risks, Continued

The following table provides information as of September 30, 2011, concerning the fair value of investments and interest rate risk:

INVESTMENTS

	Maturity in Years at Fair Value					
Type of Investment	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Total Fair Value**	**Cost**
Fixed Maturity						
Domestic						
Money Market Funds	$ 77,186,608	$ -	$ -	$ -	$ 77,186,608	$ 77,186,608
Commercial Paper	160,590,271	-	-	-	160,590,271	160,590,271
U.S. Agency	-	44,671,735	44,265,545	5,913,926	94,851,206	87,575,231
U.S. Government Guaranteed	-	70,239,185	167,558,443	31,251,723	269,049,351	245,685,849
Corporate Bonds	47,860,752	137,187,550	151,910,248	80,134,597	417,093,147	397,254,819
Private Placements	-	15,575,764	-	16,235,262	31,811,026	41,271,749
GNMAs	-	-	-	9,370,991	9,370,991	8,639,922
Collateralized Mortgage Obligations	-	-	3,980,445	132,903,215	136,883,660	132,939,005
Total Domestic Fixed Maturity	$ 285,637,631	$ 267,674,234	$ 367,714,681	$ 275,809,714	1,196,836,260	1,151,143,454
Equities						
Domestic					217,419,697	226,127,222
Total Investments					**$ 1,414,255,957**	**$ 1,377,270,676**

A. Investment Risks, Continued

The following table provides information as of September 30, 2011, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's Ratings	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair
Aaa	$ 219,458,885	$ 209,196,509	18.34 %
Aa1	5,197,204	4,409,194	0.43
Aa2	27,154,243	25,380,674	2.27
Aa3	26,065,407	23,094,761	2.18
AA (SP)	37,233,149	37,221,523	3.11
P-1	77,186,608	77,186,608	6.45
P-2	160,590,270	160,590,270	13.42
A1	34,826,341	34,023,207	2.91
A2	44,778,599	41,172,542	3.74
A3	40,425,429	36,501,318	3.38
A (SP)	1,995,727	1,716,000	0.17
Baa1	87,863,581	81,102,611	7.34
Baa2	63,499,379	58,560,699	5.31
Baa3	29,968,843	29,165,629	2.50
BBB+ (SP)	4,375,764	3,781,567	0.37
BBB (SP)	1,845,074	1,623,005	0.15
Ba1	18,248,187	17,608,864	1.52
Ba2	2,750,303	2,689,728	0.23
Ba3	6,032,071	6,568,906	0.50
Caa2	4,056,543	4,270,045	0.34
U.S. Government Guaranteed Securities	278,420,342	254,325,772	23.26
Not Rated	24,864,311	40,954,022	2.08
Total Fixed Maturities	$1,196,836,260	$ 1,151,143,454	100.00 %

The Moody's ratings are used when available. The Standard & Poor's rating is used when Moody's rating is not available. Standard & Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category".

The total fair market value of fixed maturities includes privates placement securities in the amount of $31,811,026.

B. Concentration of Investments

As of September 30, 2011, the PEIRAF/DCP owned debt securities of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which represented approximately 5.42% and 8.25%, respectively, of the total fair value of investments.

C. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The Plan's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the Plan for collateral that will be returned for the same securities in the future. Approved borrowers of securities provide acceptable collateral in the form of cash (U. S. and foreign currency), any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U. S. and non U.S. equities, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the PEIRAF/DCP or borrower. The initial collateral received shall have (depending on the nature of the loaned securities and the collateral received) a value of 102% or 105% of the fair value of the loaned securities, or such other value, but not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of business, employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The PEIRAF/DCP cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF). Effective December 3, 2010, the collateral fund was restructured, separating the collateral fund into two pools, a liquidity pool and a duration pool. This split allows greater flexibility in managing the available liquidity in the investment in the fund and the outstanding balance of securities on loan.

The following describes the QDF's guidelines. The QDF's Investment Manager shall maintain the dollar-weighted average maturity of QDF in a manner that the Investment Manager believes is appropriate to the objective of QDF; provided, that (i) in no event shall any Eligible Security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the QDF not to exceed 75 calendar days and (iii) the Investment Manager shall

C. Securities Lending Program, Continued

endeavor to maintain a dollar-weighted average maturity to final of Global Securities Lending Trust (GSLT) not to exceed 180 calendar days. At the time of purchase, (i) all eligible securities with maturities of 13 months or less shall (x) be rated at least A1, P1 or F1 by at least any two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or (y) be determined by the Investment Manager to be of comparable quality and (ii) all eligible securities with maturities in excess of 13 months shall (x) be rated at least A-, A3 or A- by at least any two of S & P, Moody's or Fitch, or (y) be determined by the Investment Manager to be of comparable quality. The QDF may invest up to 10% of its assets at a time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines. The QDF duration pool includes all asset backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor as of December 3, 2010 owned a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of September 30, 2011, the average term of the loans was 64 days. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

The fair value of the securities on loan was $365,636,010 and the fair value of the collateral pledged by the borrowers was $379,666,053, as of September 30, 2011. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2011. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Fund. Securities pledged as collateral are held by the custodial agent, but not in the name of the Fund. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower. State Street may instruct the third party bank to establish and maintain a borrower's account and a State Street account wherein all collateral including cash shall be maintained by the third party bank in accordance with the terms of the agreement.

C. Securities Lending Program, Continued

The following table provides information as of September 30, 2011, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

Type of Investment Lent	**Amounts**
For Cash Collateral	
Domestic Fixed Maturities	$ 65,701,653
Domestic Equity	16,081,923
Total Lent for Cash Collateral	81,783,576
For Non-cash Collateral	
Domestic Fixed Maturities	280,438,666
Domestic Equity	3,413,768
Total Lent for Non-cash Collateral	283,852,434
Total Securities Lent	$ 365,636,010
Type of Collateral Received	
Cash Collateral - Invested in State Street Quality D Fund	$ 83,569,476
Non-cash Collateral	
For Lent Domestic Fixed Maturities	292,449,179
For Lent Domestic Equity Securities Collateral	
EURO	432,858
GBP	178,028
US Dollar	3,036,512
Total Non-Cash Collateral	296,096,577
Total Collateral Received	$ 379,666,053

D. Mortgage-backed Securities

As of September 30, 2011, the PEIRAF/DCP had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.