



TEACHERS' RETIREMENT FUND
**2011 COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2011

FINANCIAL SECTION

- 20 Independent Auditor's Report
- 21 Management's Discussion and Analysis
- 26 Statement of Fiduciary Net Assets
- 27 Statement of Changes in Fiduciary Net Assets
- 28 Notes to the Financial Statements
- 50 Schedule of Funding Progress
- 51 Schedule of Contributions from the Employers
and Other Contributing Entities
- 52 Administrative and Other Expenses
- 53 Investment Expenses
- 54 Contractual and Professional Services Expenses

FINANCIAL SECTION

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TEACHERS' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying financial statements of the Teachers' Retirement Fund Board of Trustees, as of, and for the year ended June 30, 2011. These financial statements are the responsibility of the Teachers' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Teachers' Retirement Fund Board of Trustees' internal control over reporting. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Teachers' Retirement Fund Board of Trustees as of June 30, 2011, and the respective changes in the financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedules of Funding Progress, and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Administrative Expenses, Investment Expenses, and Contractual and Professional Service Expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 14, 2011

FINANCIAL SECTION

Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Indiana State Teachers' Retirement Fund (TRF) financial statements for the fiscal year ended June 30, 2011. The MD&A is presented as a narrative overview and analysis. The MD&A should be read in conjunction with the Financial Statements, the Notes to the Financial Statements, and the Required Supplemental Schedules.

Financial Highlights

- The net assets of TRF were \$9.1 billion as of June 30, 2011.
- The net assets of TRF increased by \$1.0 billion, or 12.1 percent, from the prior fiscal year. The increase was primarily due to positive total returns on Fund investments, resulting in higher investment values.
- The TRF rate of return on investments for the fiscal year was positive 14.9 percent on a market value basis, compared to last fiscal year's positive 13.5 percent, as stocks and bonds continued to provide positive returns. The Defined Benefit assets (i.e., TRF-controlled asset allocation) returned a positive 18.0 percent. The Annuity Savings Account (ASA) assets (i.e., member-controlled asset allocation) returned a positive 8.8 percent, since 68.3 percent of the members' ASA assets were invested in the Guaranteed Fund which returned 1.75 percent for fiscal year 2011.
- As of June 30, 2010, the date of the most recent actuarial valuation, the Pre-1996 Account (a pay as you go plan) is actuarially funded at 33.1 percent, which is more than the 31.9 percent funded level as of June 30, 2009. The 1996 Account is actuarially funded at 94.7 percent, which is more than the 93.1 percent funded level as of June 30, 2009. The Pre-1996 Account includes all members who were hired before July 1, 1995, and have been continuously employed by the same Board of Education as they were on that date. The 1996 Account includes all other members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TRF's Financial Statements, which are comprised of three components: (1) Financial Statements, (2) Notes to the Financial Statements, and (3) Required Supplemental Schedules. The information available in each of these sections is briefly summarized as follows:

1) Financial Statements

The Statement of Fiduciary Net Assets presents information on TRF's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects TRF's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities. This statement indicates the net assets available to pay future pension benefits and gives a snapshot at a particular point in time.

The Statement of Changes in Fiduciary Net Assets presents information showing how TRF's net assets held in trust for pension benefits changed during the fiscal year ended June 30, 2011. It reflects contributions by members and employers, along with deductions for retirement and annuity benefits, administrative expenses, and other deductions. Investment income and losses, resulting from investing and securities lending activities during the period, are also presented.

FINANCIAL SECTION

Management's Discussion and Analysis, continued

2) Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in TRF's Financial Statements.

3) Required Supplemental Schedules

The Required Supplemental Schedules consist of a Schedule of Funding Progress and a Schedule of Contributions from the Employers and Other Contributing Entities.

Financial Analysis

TRF's total assets were \$9.9 billion as of June 30, 2011, compared with \$9.3 billion as of June 30, 2010. The increase in total assets was primarily due to increases in the market value of investments driven by a 14.9 percent return on investment and an increase in receivables for securities sold as of June 30, 2011, partially offset by the elimination of securities lending collateral as the program was temporarily discontinued due to the change of custodians on July 1, 2011.

Total liabilities were \$0.8 billion as of June 30, 2011, compared with \$1.2 billion as of June 30, 2010. The decrease in total liabilities was primarily due to the elimination of the securities lending program referenced above, partially offset by an increase in payables for securities purchased as of June 30, 2011.

As the table below shows, total net assets were \$9.1 billion as of June 30, 2011, which represents an increase of \$1.0 billion, or 12.1 percent, compared to the prior fiscal year, driven primarily by the increase in market value of investments during the year.

Net Assets					
(dollars in thousands)					
	June 30, 2011	June 30, 2010	Increase / (Decrease)	% Change	
Assets					
Cash and Cash Equivalents	\$ 730,869	\$ 589,589	\$ 141,280	24.0 %	
Securities Lending Collateral	-	916,206	(916,206)	(100.0)	
Receivables	442,546	199,744	242,802	121.6	
Investments	8,704,940	7,611,007	1,093,933	14.4	
Other Assets	3,009	2,144	865	40.3	
Total Assets	\$ 9,881,364	\$ 9,318,690	\$ 562,674	6.0 %	
Liabilities					
Securities Lending Collateral	\$ -	\$ 916,206	\$ (916,206)	(100.0)%	
Other Current Liabilities	759,567	261,655	497,912	190.3	
Long-term Liabilities	60	60	-	-	
Total Liabilities	\$ 759,627	\$ 1,177,921	\$ (418,294)	(35.5)%	
Total Net Assets	\$ 9,121,737	\$ 8,140,769	\$ 980,968	12.1 %	
Investment, Administrative and Other Expenses as a Percent of Net Assets	0.57 %	0.67 %	(0.10) %		

FINANCIAL SECTION

Management's Discussion and Analysis, continued

The following table presents TRF's investment allocation for employer-controlled assets (i.e., Defined Benefit plan assets) as of June 30, 2011, compared to TRF's target investment allocation and the prior fiscal year's allocation.

Asset Allocation				
	June 30, 2011 Actual	June 30, 2011 Target	June 30, 2010 Actual	Allowable Range For Investments
Global Equity	49.0%	41.0%	43.5%	26% to 56%
Global Fixed Income	37.3	37.0	43.0	28% to 47%
Inflation Sensitive	9.4	18.0	9.4	10% to 26%
Absolute Return	4.3	4.0	4.1	2% to 6%
Total	100.0%	100.0%	100.0%	

Due to the length of time needed to invest in illiquid alternative assets, such as private real estate, the Inflation Sensitive asset class is slightly below its range.

FINANCIAL SECTION

Management's Discussion and Analysis, continued

A summary of the changes in net assets during the fiscal years ended June 30, 2011 and 2010 is presented below:

	Fiscal Year Ended			
	June 30, 2011	June 30, 2010	Increase / (Decrease)	% Change
Changes In Net Assets (dollars in thousands)				
Additions				
Member Contributions	\$ 126,784	\$ 131,676	\$ (4,892)	(3.7) %
Employer Contributions	880,611	849,855	30,756	3.6
Employer Contributions to Pension Stabilization Fund	35,000	30,000	5,000	16.7
Net Investment Income	1,177,389	965,556	211,833	21.9
Transfer from Public Employees' Retirement Fund	8,827	5,510	3,317	60.2
Total Additions	\$ 2,228,611	\$ 1,982,597	\$ 246,014	12.4 %
Deductions				
Pension and Disability Benefits	\$ 1,210,999	\$ 1,017,104	\$ 193,895	19.1 %
Distribution of Contributions and Interest	20,565	10,447	10,118	96.9
Administrative & Other Expenses	10,840	11,076	(236)	(2.1)
Transfer to Public Employees' Retirement Fund	5,239	2,339	2,900	124.0
Total Deductions	\$ 1,247,643	\$ 1,040,966	\$ 206,677	19.9 %
Net Increase in Net Assets	\$ 980,968	\$ 941,631	\$ 39,337	4.2 %
Net Assets - Beginning of Year	\$ 8,140,769	\$ 7,199,138	\$ 941,631	13.1 %
Net Assets - End of Year	\$ 9,121,737	\$ 8,140,769	\$ 980,968	12.1 %

Additions

Additions needed to fund benefit payments are accumulated through contributions from members and employers, as well as returns on invested funds. Member contributions for the year ended June 30, 2011 totaled \$126.8 million. This represents a decrease of \$4.9 million, or 3.7 percent, compared to the prior fiscal year. Employer contributions were \$880.6 million, an increase of \$30.8 million, or 3.6 percent. The increase was due to larger appropriations made by the State of Indiana and new employees in the 1996 Account for whom the employers were making contributions. Employer contributions of \$35.0 million to the Pension Stabilization Fund came from the Indiana State Lottery.

TRF's recognized net investment income of \$1,177.4 million for the fiscal year ended June 30, 2011, compares to the net investment income of \$965.6 million in the prior fiscal year. The higher investment income was primarily due to the

FINANCIAL SECTION

Management's Discussion and Analysis, continued

continued recovery in the financial markets during the fiscal year. As a result, the total rate of return on TRF's investments was a positive 14.9 percent, compared to a positive 13.5 percent in the prior fiscal year. The positive rates of returns were experienced across all market segments.

Deductions

The deductions from TRF's net assets held in trust for pension benefits include primarily payments for retirement, disability, and survivor benefits, distribution of contributions and interest, and administrative expenses. For the fiscal year ended June 30, 2011, benefit payments amounted to \$1,211.0 million, an increase of \$193.9 million, or 19.1 percent, from the prior fiscal year due to the increase in the number of retirees. Distributions of contributions and interest were \$20.6 million, which represents an increase of \$10.1 million, or 96.9 percent, from the prior fiscal year. The increase of distributions of contributions and interest was primarily due to inactive members withdrawing their funds since the accounts were no longer receiving interest or earnings.

Administrative and other expenses were \$10.8 million, which was a decrease of \$0.2 million, or 2.1 percent, from the prior fiscal year.

Historical Trends

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the Defined Benefit pension plans administered by TRF as of the latest actual valuations were as follows:

	June 30, 2010	June 30, 2009
Pre -1996 Account	33.1%	31.9%
1996 Account	94.7	93.1

An analysis of the funding progress and employer contributions is provided in the Required Supplemental Schedules section of the Financial Statements.

FINANCIAL SECTION

Statement of Fiduciary Net Assets

INDIANA STATE TEACHERS' RETIREMENT FUND

As of June 30, 2011 and June 30, 2010 *
(dollars in thousands)

	2011	2010
Assets		
Cash and Cash Equivalents	\$ 730,869	\$ 589,589
Securities Lending Collateral	0	916,206
Receivables:		
Employer Contributions	35,909	35,085
Member Contributions	24,500	27,433
Member Benefits Receivable	331	582
Interest and Dividends	34,167	33,830
Due from Public Employees' Retirement Fund	1,054	1,371
Securities Sold	346,585	101,443
Total Receivables	442,546	199,744
Investments:		
Debt Securities	4,438,726	4,406,995
Equity Securities	3,287,935	2,495,072
Other	978,279	708,940
Total Investments	8,704,940	7,611,007
Capitalized Assets (Original Cost of \$3,775 Thousand):		
Net of \$766 Thousand Accumulated Depreciation	3,009	2,144
Total Assets	9,881,364	9,318,690
Liabilities		
Benefits Payable	99,075	70,463
Accounts Payable	10,656	5,419
Accrued Salaries Payable	111	141
Accrued Liability for Compensated Absences - Current	70	70
Due to Public Employees' Retirement Fund	738	167
Securities Lending Collateral	0	916,206
Payables for Securities Purchased	648,917	185,395
Total Current Liabilities	759,567	1,177,861
Accrued Liability for Compensated Absences - Long-Term	60	60
Total Liabilities	759,627	1,177,921
Net Assets Held in Trust for Pension Benefits	\$ 9,121,737	\$ 8,140,769

* The accompanying notes are an integral part of the financial statements.

FINANCIAL SECTION

Statement of Changes in Fiduciary Net Assets

INDIANA STATE TEACHERS' RETIREMENT FUND

For the fiscal years ended June 30, 2011 and June 30, 2010 *
(dollars in thousands)

	2011	2010
<u>Additions:</u>		
<u>Contributions:</u>		
Member Contributions	\$ 126,784	\$ 131,676
Employer Contributions	880,611	849,855
Employer Contributions - Pension Stabilization Fund	35,000	30,000
Total Contributions	<u>1,042,395</u>	<u>1,011,531</u>
<u>Investment Income:</u>		
Net Appreciation in Fair Value of Investments	1,012,842	802,261
Interest and Dividend Income	202,562	204,202
Securities Lending Income	2,720	2,460
Total Investment Income	<u>1,218,124</u>	<u>1,008,923</u>
Less Investment Expenses:		
Investment Fees	(40,233)	(42,892)
Securities Lending Fees	(502)	(475)
Net Investment Income	<u>1,177,389</u>	<u>965,556</u>
<u>Other Additions:</u>		
Transfer from Public Employees' Retirement Fund	8,827	5,510
Total Additions	<u>2,228,611</u>	<u>1,982,597</u>
<u>Deductions:</u>		
Pension and Disability Benefits	1,210,999	1,017,104
Distributions of Contributions and Interest	20,565	10,447
Administrative Expenses	9,020	7,862
Project Expenditures	1,630	2,884
Depreciation and Amortization Expense	190	330
Transfer to Public Employees' Retirement Fund	5,239	2,339
Total Deductions	<u>1,247,643</u>	<u>1,040,966</u>
Net Increase in Net Assets Held in Trust for Pension Benefits	<u>980,968</u>	<u>941,631</u>
Net Assets - Beginning of Year	<u>8,140,769</u>	<u>7,199,138</u>
Net Assets - End of Year	<u>\$ 9,121,737</u>	<u>\$ 8,140,769</u>

*The accompanying notes are an integral part of the financial statements.

FINANCIAL

Notes to the Financial Statements

SECTION

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - The financial statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2000, TRF became an independent body corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State; it is an independent body corporate and politic which exercises essential government functions. The members of the Board of Trustees of the Indiana State Teachers' Retirement Fund are appointed by the Governor of the State of Indiana, and a financial benefit/burden relationship exists between TRF and the State of Indiana. For these reasons, TRF is considered a component unit of the State of Indiana for financial statement reporting purposes.
- B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared using fund accounting in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement No. 25 has been implemented for the Defined Benefit pension plans.
- C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this Fund, see Note 2.
- D. Basis of Accounting - The records of this Fund are maintained on a cash basis. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Member and Employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and Refund disbursements are recognized when due and payable in accordance with the terms of the Fund.
- E. Budgets - A budget for the administrative, project, and investment expenses is prepared and approved by the Board of Trustees.
- F. Deposits and Investments - The Board of Trustees of TRF has published an Investment Policy Statement. This document sets forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets. An asset allocation review is conducted at least annually to determine the allocation in achieving the objectives of the Fund. A formal asset-liability study is conducted at least once every three years. The study analyzes the expected returns of various asset classes, projected liabilities, risks associated with alternative asset mix strategies and their effect on the projected market value of assets, funded status and contribution needs of the Fund. The outcome of the study and/or asset allocation review shall be a prudently diversified portfolio that is expected to meet the actuarial return target within the risk tolerance of the Board.

FINANCIAL

Notes to the Financial Statements, continued

The investment guidelines authorize investments in government, corporate and international debt, domestic and international equities, mutual funds, derivatives, hedge funds, private equity investments, real estate and real assets. See Notes 4, 5 and 6 for more details.

- G. Method Used to Value Investments – GASB No. 25 requires that investments of Defined Benefit plans be reported at fair value. The diversity of the investment types in which the Fund invests requires a wide range of techniques to determine fair value. The overall valuation processes and information sources by major asset classification are as follows:

Short Term

Short-term securities can consist of U.S. Treasury, Money Market Funds, Commercial Paper, and other allowable instruments that meet short-term maturity or average life, diversification and credit quality restrictions. Assets are reported at fair value or cost or amortized cost that approximates fair value. Fair value is determined based upon quoted market prices.

Debt Securities

Debt securities consist primarily of obligations of the U.S. Government and U.S. Government sponsored agencies, corporations, and securitized offerings backed by residential and commercial mortgages, credit cards, auto and student loans. Certain debt securities have an active market for identical securities. These securities can typically be valued using the close or last traded price on a specific date. The majority of other debt securities is not as actively traded and is thus valued using pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based on the specifics of the asset type.

Equity Securities

The majority of domestic and international equity securities held by the Fund are actively traded on major stock exchanges or over-the-counter. These securities are valued at the last reported sales price at current exchange rates.

Real Estate

Real Estate is held either directly or as a limited partner. Real estate investments are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of a limited partner to exit a partnership investment prior to its dissolution. Limited partnerships are reported at values provided by the general partner. These holdings are valued by the general partners on a regular basis. The valuation assumptions are based upon both market and property specific inputs such as discounted cash flows, comparative sales, and capitalization rates applied to net operating income which are not observable and involve a certain degree of expert judgment.

Alternative Investments

The Fund has investments in private equity limited partnerships and hedge funds which employ specific strategies. Private equity investments involve the purchase of unlisted, illiquid common and preferred stock and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The strategies of all such funds are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit

FINANCIAL

Notes to the Financial Statements, continued

SECTION

distributions and restrict the ability of a limited partner to exit a partnership investment prior to its dissolution. Hedge funds may be subject to redemption restrictions which can limit distributions and restrict the ability of a limited partner to exit a partnership. Alternative investments are valued using their respective net asset value (NAV) which is supplied by the investment manager or general partner. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued using assumptions based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. For alternative investments, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the accompanying financial statements.

- H. Capitalized Assets – Equipment and software with a cost of \$20 thousand or more are capitalized at the original cost. Depreciation and amortization are computed on the straight-line method over the estimated life of all assets. During fiscal year 2011, TRF capitalized approximately \$1.1 million primarily for tenant improvements of the One North Capitol building as well as the development of internally generated computer software not placed into service at this time. Accumulated depreciation and amortization increased by approximately \$250 thousand for tenant improvements and the financial system that was placed in service in November 2009.
- I. Contributions Receivable – Contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. The contributions receivable was determined by using actual contributions received in July 2011, as well as estimated amounts yet to be received for days paid in the quarter ended June 30, 2011.
- J. Inventories – Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.
- K. Reserves and Designations

The following are the legally required reserves and other designations of Fund equity:

1. Member Reserve: The member reserve represents contributions made by or on behalf of the members, plus any interest or earnings, less amounts refunded or transferred to the Benefits in Force reserve for retirement, disability, or other benefit. For the Indiana State Teachers' Retirement Fund, this reserve includes the members' Annuity Savings Accounts.
2. Benefits in Force: This reserve represents the actuarial present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability for those members electing to annuitize their Annuity Savings Accounts. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve also includes \$2,263,549 thousand for the Pension Stabilization Fund. The Pension Stabilization Fund was established by Indiana Code (IC) 5-10.4-2-5. See Note 3 for further detail on the Pension Stabilization Fund. This reserve has an unfunded actuarial accrued liability.

FINANCIAL SECTION

Notes to the Financial Statements, continued

3. Employer Reserve: This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the Benefits in Force reserve of the actuarial pension cost. This reserve has an unfunded actuarial accrued liability.
4. Undistributed Investment Income Reserve: This reserve was credited with all investment earnings. From this reserve, members' accounts are credited with interest and earnings. The remaining balance is distributed to the reserve accounts listed above. Costs of administering the Fund are financed by investment income and debited to this reserve before earnings are credited to the reserve accounts listed above.

The following are the balances of the reserves and designations of Fund equity as of June 30, 2011 (dollars in thousands):

	Member Reserve	Benefits in Force	Employer Reserve
Pre-1996 Account	\$ 2,236,526	\$ 3,109,370	\$ -
1996 Account	858,271	495,353	2,422,217
Total	\$ 3,094,797	\$ 3,604,723	\$ 2,422,217

- L. Payables and Liabilities – Payables and liabilities are maintained throughout the year for monthly reporting purposes. They are calculated or estimated for financial statement reporting purposes. Benefits payable represents accrued monthly pensions as of the date of the financial statements that will be paid the first day of the following month. The Fund pays the Defined Benefits for the month on the first day of the following month.
- M. Compensated Absences – TRF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation, personal leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.
- N. Use of Estimates – In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

FINANCIAL SECTION

Notes to the Financial Statements, continued

NOTE 2. FUND DESCRIPTION

The Indiana State Teachers' Retirement Fund is a cost-sharing, multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the State or persons who are employed by the Fund. As of June 30, 2011, the number of participating school unit employers was:

Public School Units	364
Higher Education Units	3
Auditor of State*	1
Associations	1
Total	369

*Consists of 13 state of Indiana agencies reported under one employer.

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University and employees of the Fund. Additionally, faculty members at Ball State University and the University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of June 30, 2010, Indiana State Teachers' Retirement Fund membership consisted of:

Currently Receiving Benefits	45,659
Active Plan Members	72,872
Nonvested Inactive Members	35,847
Vested Inactive Members	7,670
Total	162,048

Retirement Benefits

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

1. Regular Retirement (No Reduction Factor for Age)

Eligibility – Members are eligible at age 65 or older with at least 10 years of service credit, or between ages 60 and 64 with at least 15 years of service credit, or between ages 55 and 59 if age and service credit total at least 85 (known as the Rule of 85).

There is no mandatory retirement age.

Annual Amount – The state pension is calculated by multiplying a member's total years of service by 1.1 percent of an average of the member's five highest years of compensation. An annuity purchased by the member's accumulated contributions is added to this amount, unless the member elects to withdraw the accumulated contributions in a lump sum or elects to leave the contributions invested with the Fund.

FINANCIAL SECTION

Notes to the Financial Statements, continued

2. Early Retirement (Age Reduction Factor Used)

Eligibility – Members are eligible between ages 50 to 59 with 15 or more years of service credit. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime.

Annual Amount – For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

3. Deferred Retirement (Vested Benefit)

Eligibility – Members are eligible once they have earned ten years of service. Benefit commences at age 65.

Annual Amount – The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination.

4. Classroom Disability Benefit

Eligibility – Members are eligible once they have earned five years of service. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet Social Security disability guidelines.

Annual Amount – Members may receive \$125 per month plus \$5 for each additional year of service credit over five years.

5. Disability Retirement (No Reduction Factor for Age)

Eligibility – Members are eligible if they have earned five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount – The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination. The minimum benefit is \$180 per month.

6. Duty Death Before Retirement

Eligibility – Eligibility is available once fifteen years of service are earned and the member had either a spouse to whom the member had been married for two or more years, or the member had a dependent under the age of 18.

Annual Amount – The benefit is computed as regular retirement benefit, but reduced in accordance with a 100% joint and survivor election.

7. Benefit Increases After Retirement

No automatic increases after retirement are provided. Cost of living increases, as passed by the State legislature, have been made from time to time.

FINANCIAL SECTION

Notes to the Financial Statements, continued

Annuity Savings Account

Each member shall, as a condition of employment, contribute to the Fund 3 percent of his/her compensation. Effective July 1, 1986, each employing unit may elect to “pick up” the member contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The “pick up” amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest, unless they are immediately eligible for retirement benefits, and then they must apply for retirement benefits to obtain their accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, the designated beneficiary or estate is entitled to a lump sum settlement of contributions plus interest.

Indiana pension statutes stipulate that members of the Fund shall have the opportunity to direct their Annuity Savings Accounts. For fiscal year 2011, the number of investment options increased from five to the following seven current investment programs:

1. Guaranteed Fund – This fund’s objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
2. Large Cap Equity Index Fund – This fund’s objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
3. Small / Mid Cap Equity Fund – This fund’s objective is to seek investment growth/capital appreciation through active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
4. International Equity Fund – This fund’s objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
5. Fixed Income Fund – This fund’s objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
6. Inflation-Linked Fixed Income Fund – This fund’s objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
7. Target Date Funds – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

FINANCIAL SECTION

Notes to the Financial Statements, continued

The Guaranteed Fund, Large Cap Equity Index Fund, Small / Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund and Target Date Funds are valued at market value. When a member retires, dies or suspends membership and withdraws from the Fund, the amount credited to the member shall be valued at the market value of the member's investment, plus accrued interest and/or earnings on his/her investment, less accrued investment expenses.

Effective August 2, 2010, members may make a selection or re-allocation of investment fund options on a daily basis, versus the quarterly basis previously provided. The changes are in effect the next business day following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 1 percent increments of the total balance in the member's account at the time of allocation. The total must equal 100 percent.

NOTE 3. EMPLOYER CONTRIBUTIONS REQUIRED AND EMPLOYER CONTRIBUTIONS MADE

The Indiana State Teachers' Retirement Fund is funded on a pay as you go basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995; or hired before July 1, 1995, and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund or were re-hired by a covered prior employer; the individual employer will make annual contributions. These contributions are set as a percentage of the employee's salary at a rate recommended by the Fund's actuary and approved by the Fund's Board of Trustees.

Based on the actuarial valuation at June 30, 2009, employer actuarially required contributions were \$1,048,649 thousand for the fiscal year ended June 30, 2011. Contributions made by employers for the year ended June 30, 2011, were \$915,611 thousand.

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURES

The Fund's Investment Policy states the following:

Description of TRF

The Indiana State Teachers' Retirement Fund ("TRF" or the "Fund") is a Defined Benefit plan under Internal Revenue Code Section 401(a) and is governed by federal law, the Indiana Constitution, Indiana Code, Indiana Administrative Code, and policies set by the TRF Board of Trustees (the "Board"). Pursuant to Indiana law and the Internal Revenue Code, TRF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. In order to provide the ensuing tax advantages to its members, TRF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code. In addition, TRF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code.

FINANCIAL SECTION

Notes to the Financial Statements, continued

Objectives

All aspects of this policy statement should be interpreted in a manner consistent with the Fund's objectives. The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

1. To have the ability to pay all benefit and expense obligations when due;
2. To achieve the actuarial rate of return while limiting downside risk; and
3. To control the costs of administering the Fund and managing the investments.

Description of the Primary Statutory Investment Provision

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. The primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.4-3-10.

Other pertinent investment requirements in the Indiana Code ("IC") include the following:

1. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. All Custodians must be domiciled in the United States. IC 5-10.4-3-13;
2. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9); and
3. The Board must divest from firms that do business with Sudan under IC 5-10.2-9 and State Sponsors of Terror under IC 5-10.2-10.

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets.

The strategic asset allocation for employer assets effective on June 30, 2011 is as follows:

Global Equity	41%
Global Fixed Income	37
Inflation Sensitive	18
Absolute Return	4
Total	100%

The asset allocation for the Guaranteed Fund, which is employee assets in the members' Annuity Savings Accounts, is 100 percent fixed income securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes.

FINANCIAL SECTION

Notes to the Financial Statements, continued

The Fund uses the Barclays Capital Aggregate Index as the benchmark for performance measurement of domestic fixed income managers and various other indices for international fixed income managers.

The Fund invests in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities, including securities backed by residential and commercial real estate loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

As of June 30, 2011, the Fund had the following duration information:

(dollars in thousands)

Debt Security Type	Fair Value 6/30/2011	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Cash & Cash Equivalents:			
Short Term Bills and Notes	\$ 219,568	4%	0.44
Commercial Paper	3,575	0	0.03
Duration Not Available	507,726	10	N/A
Total Cash & Cash Equivalents	730,869	14	
Investments Debt Securities:			
Asset-Backed Securities	270,847	5	0.62
Commercial Mortgage-Backed Securities	257,296	5	2.22
Corporate Bonds	1,552,988	30	3.35
Collateralized Bonds	133	0	0.23
Government Issued Commercial Mortgage-Backed Securities	9,788	0	4.36
Index Linked Government Bonds	102,852	2	4.47
Guaranteed Fixed Income	24,569	1	1.47
Government Agencies	123,835	2	3.03
Government Bonds	585,744	11	5.46
Government Mortgage-Backed Securities	683,106	13	3.07
Bank Loans	2,846	0	0.18
Municipal/Provincial Bonds	21,040	1	5.65
Non-Government Backed C.M.O.s	147,890	3	0.95
Other Fixed Income	699	0	0.56
Duration Not Available	655,093	13	N/A
Total Investment Debt Securities	4,438,726	86	
Total Debt Securities	\$ 5,169,595	100%	

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

FINANCIAL

Notes to the Financial Statements, continued

SECTION

There was no custodial credit risk for investments including investments related to securities-lending collateral. Per IC 5-10.4-3-13, all Fund investments are held by banks or trust companies under custodial agreements and all custodians must be domiciled in the United States.

Deposit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to \$250 thousand each. Deposits in the demand accounts held in excess of \$250 thousand are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash deposits held with the custodian, brokers and counterparty are carried at cost and are not insured or collateralized.

Assets Exposed (dollars in thousands):

Demand Deposit Accounts - Bank Balance	\$	122,768
Initial/Variation Margin		3,290
Cash Collateral with Counterparty		1,640
Cash Held with Custodian		9,754
Total Exposed	\$	137,452

Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard and Poor's. The Fund's credit risk of investments policy is set on a manager by manager basis.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's.

Moody's Rating	Cash and Cash Equivalents	Debt Securities	Total	Percentage of Debt & Cash Equivalents
Aaa	\$ -	\$ 1,118,720	\$ 1,118,720	23.5%
US Government Guaranteed	216,715	830,035	1,046,750	21.9
Aa	-	281,646	281,646	5.9
A	-	475,970	475,970	10.0
Baa	2,852	654,156	657,008	13.8
Ba	-	188,244	188,244	3.9
B	-	65,742	65,742	1.4
Below B	-	21,117	21,117	0.4
Unrated	112,540	803,096	915,636	19.2
	<u>332,107</u>	<u>4,438,726</u>	<u>4,770,833</u>	<u>100.0%</u>
Cash - Not Applicable	398,762	-	398,762	
Total	\$ 730,869	\$ 4,438,726	\$ 5,169,595	

FINANCIAL SECTION

Notes to the Financial Statements, continued

Concentration of Credit Risk

As of June 30, 2011, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5 percent of net investments.

Foreign Currency Risk

Foreign currency risk is defined as any deposit or investment that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. As of June 30, 2011, 11.0 percent of the Fund's investments were in foreign currencies. The objective of the Fund's foreign currency risk policy is to effectively manage portfolio return volatility associated with foreign currency risk, allowing for a structure that will manage the level of strategic currency risk to the Fund. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

	Foreign Currency Held at June 30, 2011					
	Equity Securities	Debt Securities	Other Investments	Cash & Cash Equivalents	Total	% of Total
<u>Currency:</u>						
Australian Dollar	\$ 42,550	\$ 579	\$ -	\$ 54	\$ 43,183	0.5%
Brazilian Real	5,312	2,250	70	-	7,632	0.1
British Pound Sterling	107,107	22,607	12,653	1,347	143,714	1.5
Canadian Dollar	31,795	16,960	319	74	49,148	0.5
Danish Krona	3,360	-	-	52	3,412	0.0
Euro Currency Unit	304,878	77,052	62,113	5,046	449,089	4.8
Hong Kong Dollar	32,262	-	-	82	32,344	0.3
Israel Shekel	2,794	-	-	97	2,891	0.0
Japanese Yen	148,859	33,485	(136)	835	183,043	1.9
Mexican Peso	-	8,215	-	294	8,509	0.1
New Zealand Dollar	513	-	-	15	528	0.0
Norwegian Krone	7,152	-	-	177	7,329	0.1
Philippine Peso	-	-	-	-	-	0.0
Polish Zloty	-	4,841	-	-	4,841	0.1
Singapore Dollar	10,521	-	-	40	10,561	0.1
South Korean Won	4,247	-	-	-	4,247	0.0
Swedish Krona	23,728	-	-	201	23,929	0.3
Swiss Franc	63,381	-	-	542	63,923	0.7
Thai Baht	725	-	-	-	725	0.0
Held in Foreign Currency	789,184	165,989	75,019	8,856	1,039,048	11.0
Held in USD	2,498,751	4,272,737	903,260	722,013	8,396,761	89.0
Total	\$ 3,287,935	\$ 4,438,726	\$ 978,279	\$ 730,869	\$ 9,435,809	100.0%

FINANCIAL SECTION

Notes to the Financial Statements, continued

Securities Lending

State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition, the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102 percent of the market value of domestic securities lent and 105 percent on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40 percent of TRF's total assets may be lent at any one time. Approximately 25 percent of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day.

At year end, the Fund has no securities lending transactions. The custodian agreement with Northern Trust was terminated as of June 30, 2011 and as of July 1, 2011 the Fund's new custodian was Bank of NY Mellon.

Outstanding Short Sales

Short sales occur when investments have been sold which are not yet owned by the Fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the Fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2011, is listed below. These investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk, as the asset to be delivered may become more costly to procure and then losses would be realized.

A schedule of the outstanding short sales at June 30, 2011 follows (dollars in thousands):

Type of Investment:

Government Mortgage-Backed	\$	96,741
Total	\$	96,741

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. The Fund's derivatives are all related to fiduciary activities. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Assets as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Assets as investment income. TRF's directly-held investments in derivatives are not leveraged. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps, forward contracts and TBAs (Mortgage To Be Announced). Alternatively, a derivative instrument, such as futures, could be listed

FINANCIAL SECTION

Notes to the Financial Statements, continued

and traded on an exchange and referred to as “exchange traded”. Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

During the year, the Fund’s derivative investments included:

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

TRF’s investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, TRF’s investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. Interest rate swaptions are options to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services using various proprietary methods, based upon the type of option.

Rights/Warrants

Rights provide the holder with the right, but not the obligation, to buy a company’s common stock at a predetermined price, the subscription price. The right is good until its expiration date. A right permits the investor to buy at a price that may be below the actual market price for that stock. A warrant is an option to buy an underlying equity security at a predetermined price for a finite period of time.

FINANCIAL

Notes to the Financial Statements, continued

SECTION

Forwards

Foreign Currency

A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Assets. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Assets.

The Fund enters into forward currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Bond Forwards

A bond forward is a contract for the purchase or sale of debt security, to be delivered at a future agreed-upon date. Bond forwards are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration.

TBA

A TBA (Mortgage To Be Announced) is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed upon date. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract.

TBAs are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration.

The fair value is determined by external pricing services using various proprietary methods.

Swaps

Interest Rate Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation.

The fair value is determined by external pricing services using various proprietary methods.

Credit Default Swaps

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

FINANCIAL SECTION

Notes to the Financial Statements, continued

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk.

The fair value is determined by external pricing services using various proprietary methods.

The table below summarizes TRF's derivative information for the year ending June 30, 2011 (dollars in thousands):

Investment Derivatives	Change in Fair Value	Fair Value	Notional (USD)
Futures			
Commodity Index Futures	\$ (1,832)	\$ (1,832)	\$ 35,126
Bond Futures	(331)	(331)	563,284
Foreign Exchange Futures	2	2	67,781
	<u>(2,161)</u>	<u>(2,161)</u>	<u>666,191</u>
Options			
Call Swaptions (LIBOR)	(6)	(48)	8,400
Put Swaptions (LIBOR)	490	482	41,653
Inflation	3	(3)	600
Bond Options	669	5,338	21,000
	<u>1,156</u>	<u>5,769</u>	<u>71,653</u>
Swaps			
Interest Rate Swaps	(1,380)	(1,289)	44,027
Credit Default Swaps Single Name	(76)	(209)	61,467
Credit Default Swaps Index	906	928	55,565
	<u>(550)</u>	<u>(570)</u>	<u>161,059</u>
Rights/Warrants			
Rights	15	15	283
Warrants	73	73	76
	<u>88</u>	<u>88</u>	<u>359</u>
Forwards			
Bond Forwards	(67)	(297)	23,000
TBA			
	165	206,429	285,080
Total	\$ (1,369)	\$ 209,258	\$ 1,207,342

Swap Type	Swap Maturity Profile at June 30, 2011 (dollars in thousands)					Total
	< 1 yr	1 - 5 yrs	5-10 yrs	10 - 20 yrs	20 + yrs	
Credit Default - Single Name	\$ (76)	\$ (230)	\$ 97	\$ -	\$ -	\$ (209)
Credit Default - Index	-	74	406	-	448	928
Interest Rate Swaps	73	407	(274)	(1,459)	(36)	(1,289)
Total Swap Fair Value	\$ (3)	\$ 251	\$ 229	\$ (1,459)	\$ 412	\$ (570)

FINANCIAL

Notes to the Financial Statements, continued

SECTION

Interest Rate Risk

The Fund has exposure to interest rate risk due to the investment in interest rate swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule in Note 4.

Derivative Instruments Highly Sensitive to Interest Rate Changes (dollars in thousands)			
Investment Type	Reference Rate	Fair Value	Notional
TBA Securities	3.50%	\$ (956)	\$ 1,000
TBA Securities	4.00%	52,015	66,025
TBA Securities	4.50%	123,229	153,910
TBA Securities	5.00%	29,105	61,395
TBA Securities	5.50%	825	750
TBA Securities	6.00%	2,211	2,000
Total TBA Securities		\$ 206,429	\$ 285,080
Interest Rate Swap	Pay Variable 6 month BP / Receive Fixed 3.5%	\$ 3	\$ 642
Interest Rate Swap	Pay Variable BRL 1D LIBOR / Receive Fixed 11.57%	73	3,905
Interest Rate Swap	Pay Variable BRL LIBOR/Receive Fixed 11.49%	(3)	1,088
Interest Rate Swap	Pay Variable 6 month LIBOR / Receive Fixed 6.0%	409	5,940
Interest Rate Swap	Pay Variable 6 month LIBOR/Receive Fixed 3.5%	22	482
Interest Rate Swap	Pay Fixed 2.5% / Receive Variable 3 month LIBOR	(24)	1,000
Interest Rate Swap	Pay Fixed 4.0% / Receive Variable 3 month LIBOR	(244)	3,300
Interest Rate Swap	Pay Fixed 3.5% / Receive Variable 3 month LIBOR	(29)	1,300
Interest Rate Swap	Pay Variable CAD 3 month BBR / Receive Fixed 5.8%	323	13,263
Interest Rate Swap	Pay Fixed 5.0%/Receive Variable 3 month LIBOR	(1,782)	11,800
Interest Rate Swap	Pay Variable 3 month CDOR / Receive Fixed 5%	(1)	207
Interest Rate Swap	Pay Fixed 4.25% / Receive Variable 3 month LIBOR	(36)	1,100
Total Interest Rate Swaps		\$ (1,289)	\$ 44,027

Credit Risk

Inherent in the use of OTC derivatives, the Fund is exposed to counterparty credit risk on all open OTC positions.

Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. The Fund uses International Swaps and Derivatives Association Master Agreements and collateral to mitigate counterparty credit risk. Securities eligible as collateral are typically United States government bills and U.S. dollar cash. Generally, any positive movement in market value requires the counterparty to transfer a minimum of \$250 thousand in collateral. This margin is adjusted at a minimum weekly and can be called as frequently as daily.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in asset positions at June 30, 2011, was \$1,451 thousand of which \$212 thousand was uncollateralized.

FINANCIAL SECTION

Notes to the Financial Statements, continued

Some of the Fund's master agreements are subject to credit-related contingent features. In the event the Fund's assets decline by various, pre-specified rates over predetermined time periods, the Fund is either required to post more collateral or may be required to pay off the open liability contracts given the counterparties right to terminate the contract. Contingent features that could result in an immediate payment from the counterparty include a downgrade of the counterparty below a lower specified rating, commonly A-/A3. It is important to note that these contingent features are not compulsory, rather they are voluntary.

(dollars in thousands)

Swaps Counterparty	S&P Rating	Fair Value			Collateral	
		Receivable / Unrealized Gain	Payable / (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America Corp	A	\$ -	\$ (1,293)	\$ (1,293)	\$ 1,510	\$ -
Barclays Bank	AA-	-	(454)	(454)	130	-
Citibank	A+	353	-	353	-	(440)
Credit Suisse	A+	-	(6)	(6)	-	-
Deutsche Bank	A+	340	-	340	-	(520)
Goldman Sachs Bank	A	406	-	406	-	(290)
Goldman Sachs International	A	-	(117)	(117)	-	-
JPMorgan Chase Bank	AA-	140	-	140	-	(260)
Merrill Lynch & Co	A	3	-	3	-	-
Morgan Stanley Capital Services	A	93	-	93	-	-
Royal Bank of Canada	AA-	116	-	116	-	(260)
Royal Bank of Scotland	A+	-	(71)	(71)	-	(270)
UBS	A+	-	(80)	(80)	-	-
Total		\$ 1,451	\$ (2,021)	\$ (570)	\$ 1,640	\$ (2,040)

Credit Default Swaps (dollars in thousands)				
Investment Type		Reference	Fair Value	Notional
Index	Sold	CDX	\$ 82	\$ 16,530
Index	Bought	CDX	398	35,413
Index	Bought	ABX	448	3,622
Total CDS - Index			\$ 928	\$ 55,565
Single Name	Sold	Various	\$ (54)	\$ 6,967
Single Name	Bought	Various	(155)	54,500
Total CDS - Single Name			\$ (209)	\$ 61,467

FINANCIAL

Notes to the Financial Statements, continued

SECTION

Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 4.

At June 30, 2011, TRF's investments included the following currency forwards balances:

(dollars in millions)

Forward Currency Contract Receivables	\$ 261.1
Forward Currency Contract Payables	\$ 260.9

NOTE 6. LONG TERM COMMITMENTS FOR ALTERNATIVE INVESTMENTS

TRF had entered into long term commitments for funding alternative investments in private equity and private real estate of \$1,461 million as of June 30, 2011. These investments had a net asset value of \$788 million as of June 30, 2011. The funding period for the amounts that TRF has already committed is from April 2002 to approximately June 2018. The outstanding commitments at June 30, 2011, totaled \$728 million.

NOTE 7. DEFERRED COMPENSATION PLAN

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. The Indiana State Incentive Match Plan which provided \$15 per pay period for each employee who contributed to the 457 Plan was discontinued January 1, 2010, due to budget reductions.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

NOTE 8. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters.

FINANCIAL SECTION

Notes to the Financial Statements, continued

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. However, the Fund does carry property insurance and a blanket bond on its employees and Board.

NOTE 9. EMPLOYEE FUND MEMBERSHIP

Employees of the Indiana State Teachers' Retirement Fund are eligible for membership in the Fund. Effective July 1, 2001, IC 21-6.1-4-1(a)-10 (re-codified as IC 5-10.4-4-1) states that members of the Fund include persons who are employed by the Fund.

NOTE 10. RESERVE TRANSFERS WITH THE PUBLIC EMPLOYEES' RETIREMENT FUND (PERF)

Transfers of a member's reserves are made between TRF and PERF when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF. If the member is retiring from PERF, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement is calculated, TRF sets up a receivable from PERF for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit.

NOTE 11. GROUP HEALTH INSURANCE PROGRAM

Medicare eligible TRF members may enroll in a Medicare supplemental group health insurance plan offered by Anthem Blue Cross and Blue Shield. As of June 30, 2010, total designations and reserves for the retiree health insurance program were \$18,897 thousand. A portion of these funds were held and invested by TRF in a Health Plan Reserve. During fiscal year 2011, TRF turned these funds over to Anthem Blue Cross and Blue Shield. These funds are now part of the fee stabilization reserve at Anthem and will be used to stabilize the premiums paid by retirees for health insurance. This reserve consists solely of retiree premiums. Total premiums paid to Anthem for the Medicare supplemental group health insurance will be funded through retiree paid premiums and contributions from the fee stabilization reserve.

FINANCIAL SECTION

Notes to the Financial Statements, continued

NOTE 12. SUBSEQUENT EVENTS

Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2011.

Indiana Public Retirement System

Legislation was passed that merged the Indiana Public Employees' Retirement Fund and the Indiana State Teachers' Retirement Fund, and established the Indiana Public Retirement System to administer and manage:

1. The Public Employees' Retirement Fund;
2. The Teachers' Retirement Fund;
3. The Judges' Retirement System;
4. The Prosecuting Attorneys' Retirement Fund;
5. The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund;
6. The 1977 Police Officers' and Firefighters' Pension and Disability Fund;
7. The Legislators' Retirement System;
8. The Pension Relief Fund;
9. The Special Death Benefit Fund; and
10. The State Employees' Death Benefit Fund.

The bill creates a nine-member Board of Trustees (Board) for the system appointed by the Governor as follows:

1. One trustee with experience in economics, finance, or investments;
2. One trustee with experience in executive management or benefits administration;
3. The Director of the Budget Agency (or designee);
4. Two trustees who are TRF members;
5. One trustee who is a PERF member;
6. One trustee who is a 1977 Fund member;
7. The Auditor of State, or a designee, with experience in professional financial accounting or actuarial science; and
8. The Treasurer of State, or a designee, with experience in economics, finance, or investments.

Teachers' Retirement Fund

- TRF members, beneficiaries, and survivors will receive a thirteenth check based on years of service, to be paid not later than October 1, 2011.

Future Comprehensive Annual Financial Reports

Beginning with fiscal year 2012, the Indiana Public Retirement System will be issuing one CAFR, based on the merger of the Indiana Public Employees' Retirement Fund and the Indiana State Teachers' Retirement Fund effective July 1, 2011.

FINANCIAL SECTION

Notes to the Financial Statements, continued

Custodian Change

Effective July 1, 2011, BNY Mellon was named as the custodian for the Indiana Public Retirement System. Previously, JP Morgan Chase was the custodian for the Indiana Public Employees' Retirement Fund and Northern Trust was the custodian for the Indiana State Teachers' Retirement Fund.

NOTE 13. ACTUARIAL FUNDING STATUS OF THE FUND

As of June 30, 2010, TRF was 44.3 percent funded. As stated in Note 3, members in the Pre-1996 Account are funded on a pay as you go method for the employer portion of the pension and members in the 1996 Account are funded with employer contributions as they work. TRF accounts for these two classes of members as Pre-1996 Account and 1996 Account, respectively. The Pre-1996 Account is 33.1 percent funded and the 1996 Account is 94.7 percent funded.

The actuarial methods and significant assumptions used by TRF are summarized in the table below:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Amortization Period	30 Years, Closed
Asset Valuation Method	4-year Smoothed Market Value with 20% Corridor
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increase	3.5% - 12.5%
Included Wage Inflation	3.0%
Cost of Living Adjustments	1.0% Compounded Annually on Pension Portion

The funded ratio of the Fund in total has increased from 43.4 percent at June 30, 2005, to the ratio of 44.3 percent at June 30, 2010. A historical look at the funded status of the Fund can be found in the Required Supplemental Schedules provided.

The actuarial value of the Fund's assets as of the June 30, 2010 valuation was \$8,804,964 thousand and the actuarial accrued liability was \$19,896,625 thousand. The difference is the Fund's unfunded actuarial accrued liability of \$11,091,661 thousand. The annual covered payroll as of the June 30, 2010 actuarial valuation was \$4,312,611 thousand and the ratio of the unfunded actuarial liability to the annual covered payroll was 257.2 percent.

FINANCIAL SECTION

Required Supplemental Schedules

SCHEDULE OF FUNDING PROGRESS

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b)-(a)) / (c)
Pre-1996 Account						
06/30/05	\$ 5,796,724	\$ 14,254,147	\$ 8,457,423	40.7%	\$ 2,305,725	366.8%
06/30/06	5,477,221	15,002,471	9,525,250	36.5	2,237,380	425.7
06/30/07	5,763,508	15,988,259	10,224,751	36.0	2,376,390	430.3
06/30/08	5,953,991	15,792,305	9,838,314	37.7	2,295,816	428.5
06/30/09	5,109,086	16,027,093	10,918,007	31.9	2,030,484	537.7
06/30/10	5,382,410	16,282,066	10,899,656	33.1	1,865,102	584.4
1996 Account						
06/30/05	\$ 1,268,575	\$ 2,010,746	\$ 742,171	63.1%	\$ 1,428,604	52.0%
06/30/06	2,209,468	2,363,101	153,633	93.5	1,565,341	9.8
06/30/07	2,713,051	2,827,554	114,503	96.0	1,891,605	6.1
06/30/08	3,080,057	2,957,758	(122,299)	104.1	2,052,720	(6.0)
06/30/09	2,920,735	3,135,533	214,798	93.1	2,308,548	9.3
06/30/10	3,422,554	3,614,559	192,005	94.7	2,447,509	7.8
Total						
06/30/05	\$ 7,065,299	\$ 16,264,893	\$ 9,199,594	43.4%	\$ 3,734,329	246.4%
06/30/06	7,686,689	17,365,572	9,678,883	44.3	3,802,721	254.5
06/30/07	8,476,559	18,815,813	10,339,254	45.1	4,267,995	242.3
06/30/08	9,034,048	18,750,063	9,716,015	48.2	4,348,536	223.4
06/30/09	8,029,821	19,162,626	11,132,805	41.9	4,339,032	256.6
06/30/10	8,804,964	19,896,625	11,091,661	44.3	4,312,611	257.2

FINANCIAL SECTION

Required Supplemental Schedules, continued

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

(dollars in thousands)

Fiscal Year Ended	Valuation Date	Annual Required Contributions	Annual Employer Contributions	Percentage Contributed
Pre-1996 Account				
06/30/06	06/30/04	\$ 556,460	\$ 601,259	108.1%
06/30/07	06/30/05	602,904	636,039	105.5
06/30/08	06/30/06	678,050	675,682	99.7
06/30/09	06/30/07	700,307	706,366	100.9
06/30/10	06/30/08	850,493	731,149	86.0
06/30/11	06/30/09	894,507	748,978	83.7
1996 Account				
06/30/06	06/30/04	\$ 116,096	\$ 100,081	86.2%
06/30/07	06/30/05	139,978	117,001	83.6
06/30/08	06/30/06	122,009	132,446	108.6
06/30/09	06/30/07	119,331	147,425	123.5
06/30/10	06/30/08	101,627	154,491	152.0
06/30/11	06/30/09	154,142	166,633	108.1
Total				
06/30/06	06/30/04	\$ 672,556	\$ 701,340	104.3%
06/30/07	06/30/05	742,882	753,040	101.4
06/30/08	06/30/06	800,059	808,128	101.0
06/30/09	06/30/07	819,638	853,791	104.2
06/30/10	06/30/08	952,120	885,640	93.0
06/30/11	06/30/09	1,048,649	915,611	87.3

FINANCIAL SECTION

Administrative and Other Expenses

INDIANA STATE TEACHERS' RETIREMENT FUND

Fiscal Year Ended June 30, 2011

(dollars in thousands)

Personnel Services:	
Salaries and Wages	\$ 1,752
Employee Benefits	647
Temporary Services	613
Total Personnel Services	3,012
Contractual and Professional Services:	
Information Technology	3,193
Benefit Payment Processing Fees	973
Consulting Services	529
Actuarial Services	85
Audit Services	46
Legal Services	41
Total Contractual and Professional Services	4,867
Communications:	
Printing	327
Postage	217
Telephone	41
Total Communications	585
Miscellaneous:	
Office Rent	309
Administrative Services	107
Travel	27
Office Expenses	26
Equipment Rental	15
Memberships and Training	14
Other Administrative Expenses	58
Total Miscellaneous	556
Total Administrative Expenses	\$ 9,020
Total Project Expenses	\$ 1,630
Total Depreciation and Amortization Expenses	\$ 190
Total Administrative and Other Expenses	\$ 10,840

FINANCIAL SECTION

Investment Expenses

INDIANA STATE TEACHERS' RETIREMENT FUND

Fiscal Year Ended June 30, 2011

(dollars in thousands)

Custodial and Consulting:	
Investment Recordkeeper Fees	\$ 2,120
Investment Consultant	1,624
Investment Custodian	330
Total Custodial and Consulting Expenses	4,074
Investment Management Fees	34,232
Investment Staff Expenses	428
Administrative Investment Expenses	1,499
Total Investment Expenses	\$ 40,233

FINANCIAL SECTION

Contractual and Professional Services Expenses

INDIANA STATE TEACHERS' RETIREMENT FUND

Fiscal Year Ended June 30, 2011
(dollars in thousands)

Individual or Firm	Fee	Nature of Services
Public Employees' Retirement Fund (PERF)	\$ 3,421	Actuarial, Audit, Computer and Legal Shared Services
Affiliated Computer Services, Inc.	973	Record Keeper Services
Indiana Office of Technology	140	IT Network Support and Services
Ernst & Young LLP	91	Internal Audit
Nyhart, Inc.	88	Actuarial and Legislative Services
State Board of Accounts	46	Audit Services
CEM Benchmarking, Inc.	35	Benchmarking Services
AlRvan Consulting LLC	15	Market Research Services
Cortex Applied Research, Inc.	14	Research Services
Ice Miller LLP	10	Legal Services
Stephenson Morow & Semler	9	Legal Services
Policy Technologies International, Inc.	6	Software Services
LexisNexis	5	Address Search Services
Perimeter Technology	4	Software and Licensing Services
Word Systems, Inc.	3	Software Services
Qualtrics Labs, Inc.	3	Consulting Services
Other Legal Services	2	Legal Services
Crossroads Rehabilitation Center, Inc.	1	Interpretation Services
Government Finance Officers Association	1	Comprehensive Annual Financial Report Filing Fee
Total Contractual and Professional Services Expenses	\$ 4,867	

Fees paid to investment professionals can be found in the Investments Section.

The first part of the paper discusses the importance of the research and the objectives of the study. It highlights the need for a comprehensive understanding of the subject matter and the role of the researcher in this process. The second part of the paper focuses on the methodology used in the study, detailing the data collection methods and the analytical techniques employed.

The results of the study are presented in the third part of the paper, showing the findings and their implications. The discussion section follows, where the author interprets the results and relates them to the existing literature. The final part of the paper is the conclusion, which summarizes the key findings and offers suggestions for future research.

In conclusion, this study has provided valuable insights into the subject matter and has contributed to the existing body of knowledge. The findings suggest that there is a need for further research in this area, particularly in the context of the current environment. The author hopes that this paper will be helpful to other researchers and practitioners in the field.

The author would like to thank the following individuals for their support and assistance during the course of this research: [Name], [Name], and [Name]. The author also wishes to express their appreciation to the [Organization] for providing the necessary resources and facilities for the study.

References: [List of references]

Appendix: [Additional information or data]