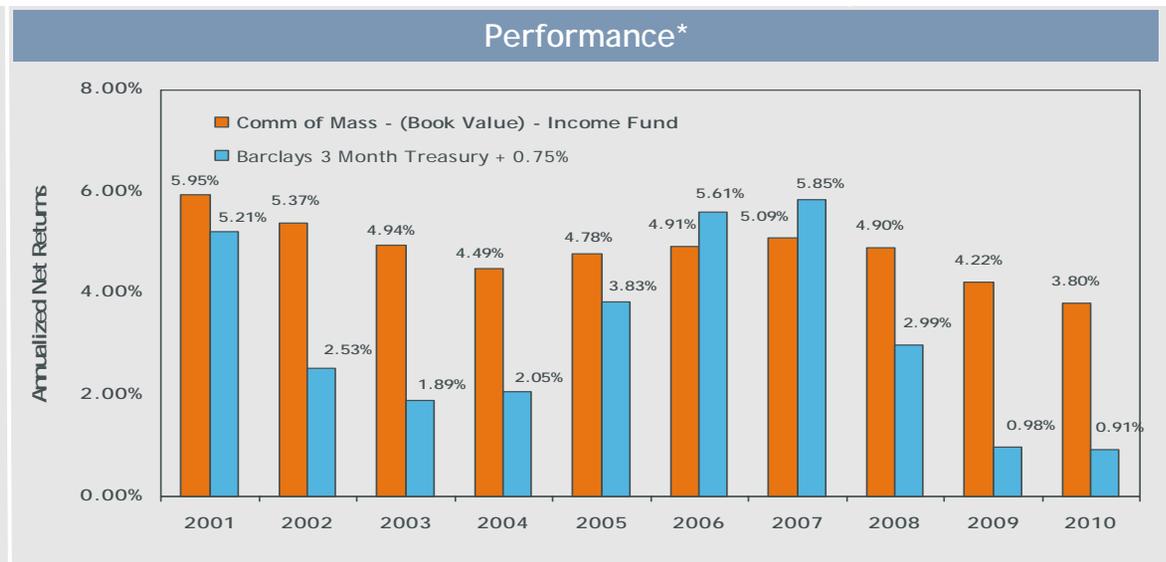
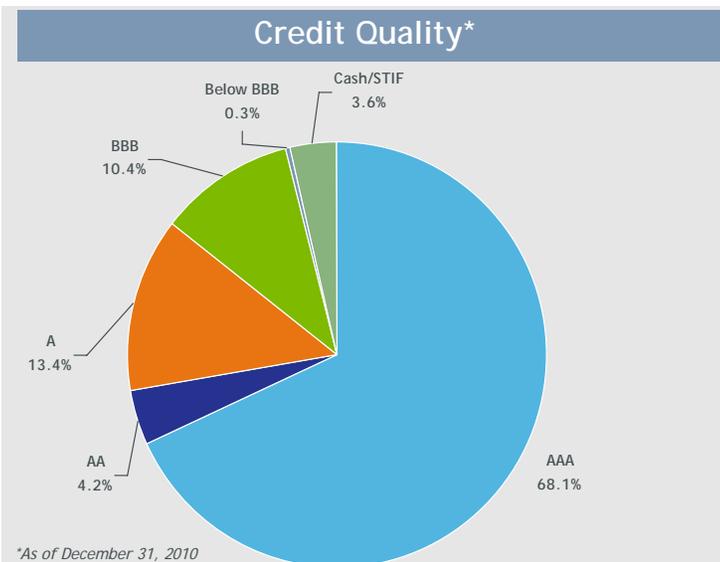


# Commonwealth of Massachusetts Stable Value Income Fund

Markets in the fourth quarter were largely driven by policy and political headlines, and by better data helping to calm fears of a potential renewed economic downturn. Despite a stubbornly high unemployment rate, mixed housing data, and continued sovereign risk concerns, US markets were encouraged by positive consumer and manufacturing data. As anticipated, the Federal Open Market Committee (FOMC) announced additional quantitative easing (QE2). Specifically, the FOMC stated its intent “to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.” As intended, the Fed’s Treasury purchases also supported risk assets during the quarter, with the Barclays High Yield Index gaining 3.2% and the S&P 500 rising 10.8%, while year-over-year inflation (represented by the Core Consumer Price Index) remained muted between 0.6% and 0.8%.

The performance of the Income Fund was strong in the fourth quarter and in 2010, up 0.91% and 3.80% respectively, significantly ahead of the Barclays 3 Month Treasury + .75% Index. The Income Fund’s market value-to-book value ratio ended the year at a healthy level of 104.3%, up from 102.6% a year ago, on the back of another year of strong fixed income performance. All of the Fund’s insurance wrap providers remain on strong financial footing, and their creditworthiness continues to be constantly monitored by BlackRock. As of December 31, 2010, the Fund was crediting a rate of 3.77%, down modestly from 3.84% at the close of the third quarter and down slightly from 3.90% a year ago, December 31, 2009, due to a decline in market interest rates. The fund continues to offer a very attractive yield compared to other high quality money market alternatives.

The Fund maintains a high quality bias with an overall credit quality of AA+. More than 70% of the Fund is invested in Government and US Agency issues, AAA-rated securities, and cash. The Fund’s sector diversification as of December 31, 2010 was as follows: 31% Treasury, 24% Credit, 13% Mortgage, 10% Asset-Backed Securities, 8% Commercial Mortgage-Backed Securities, 5% Agency, 5% Non-US Agency, 1% Municipal and 3% Cash. The Fund looks to take advantage of opportunities across spread sectors. During the fourth quarter, the Fund modestly reduced exposure to Agency Debt and Corporates in favor of adding to high quality Residential Mortgage-Backed Securities.



1. Views expressed are as of January 31, 2011 and are subject to change at any time based on market and economic conditions and other factors. Portfolio characteristics are shown above for the Commonwealth of Massachusetts Stable Value Income Fund. These characteristics represent in aggregate the credit quality and sector diversification of the underlying investments, managed by BlackRock, Income Research and Management and Wells Capital Management. BlackRock is responsible for oversight of the Income Fund. Mellon acts as the Plan Trustee of the Income Fund. Information is as of December 31, 2010 and is subject to change. Past performance is no guarantee of future results. Although designed to do so, there is no guarantee that participant-directed withdrawals will not be subject to loss. Investments in The Commonwealth of Massachusetts Stable Value Income Fund are neither insured nor guaranteed by the FDIC or any other government agency.