WHAT DOES BEING ON THE "WATCH LIST" MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely.

There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

Current Watch List Summary

The following funds are on the watch list as of 3/31/2009:

Ariel Fund: The fund continues to underperform. The fund ranks in the 98th percentile for small- mid-cap value funds for the year. The fund has moved up in the market cap; therefore, we have reclassified it as a small- mid-cap value fund benchmarked to the Russell 2500 Value Index. For those participants who bought this fund for small-cap value exposure, the Plan has added a new small-cap value option, the Northern Small Cap Value Fund. We are keeping the fund on the watch list due to the poor performance.

Legg Mason Value Trust performed in line in the first quarter, but still struggles over the longer term. The fund is in the 98th percentile for the 12-month period ending February 2009. The fund underestimated the severity of the credit crisis and has performed poorly as a result. For those wishing for a more stable large-cap blend option, there is the Vanguard Index Fund in the Plan.

Fidelity Puritan remains on the watch list due to a manager change. The fund outperformed its benchmark but has done well compared to its peer group during the first quarter. We are not overly concerned about the fund, but any time there is a change in the portfolio management, we automatically place the fund on the watch list. We will continue to monitor the new managers closely.

LSV Value Equity has been placed on the watch list due to recent performance. The fund underperformed its benchmark slightly year-to-date through February and is in the 87th percentile for the 12-month period. The last year and a half has been a rough environment for value-oriented managers such as the LSV. Most of the pain in the market has come from financials and consumer-driven stocks typically favored by value managers. The LSV fund runs a quantitative model that identifies stocks selling at a deep discount. This strategy works well over time, but it has not been working over the last year. As long as the LSV sticks to its strategy, they should rebound when the market shifts back toward value. The fund did outperform in December as the market bounced back.

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Insight

A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

HOW TO STAY FOCUSED ON YOUR GOALS IN TODAY'S ECONOMY.

In recent months, the stock market has fallen dramatically, leaving investors anxious about the value of their investments. To make matters worse, some members of the media are advocating that investors "get out of the stock market now" without knowing the individual circumstances of each investor.

For retirement plan participants, these dramatic changes to our economy can be deeply upsetting. During these challenging times, it is important to remember that T. Rowe Price understands your concerns and can offer you support and guidance that is based on more than 70 years of investment management experience.

While today's financial crisis is seemingly unprecedented, the next few pages will offer valuable insights regarding historic market trends, the decisions you can make, and the opportunities you have to find more information from T. Rowe Price.

What's happening?

Right now, the stock market might seem more like an out-of-control roller coaster than a wise place to put your retirement savings. There are many contributing factors to the current market volatility that were spurred by the bursting of inflated real estate values. These inflated values developed during a prolonged period of lax lending practices coupled with historically low interest rates. This environment allowed people—and banks—to borrow too much money. As a result, many homeowners had their homes foreclosed on and many banks had to take big losses that their assets couldn't cover.

On October 3, 2008, President Bush signed a $700 billion bailout package designed to help banks replace their bad loans with cash to lend, to make sure that businesses have access to the money they need to maintain their operations, and to allow many people who are at risk of foreclosure to refinance their loans. The goal of the bailout package, and all of the actions our government has taken in recent months, is to help the economy stabilize.

Fortunately, T. Rowe Price's portfolios are widely diversified and have had relatively limited exposure to the firms that have either recently merged or gone out of business. According to James A.C. Kennedy, T. Rowe Price Group's chief executive officer and president, T. Rowe Price remains financially stable and optimistic about the future. "We are very pleased that our financial stability has enabled us to stay focused on our clients and to continue investing in our capabilities. Despite the short-term market uncertainties, however, with our strong long-term performance record and diversified investment and distribution capabilities, the long-term outlook for T. Rowe Price remains strong."

Participant investment behaviors during the recent volatility

What are other retirement plan participants doing with their savings during this financial turmoil? According to data from T. Rowe Price recordkept plans compiled between October 1, 2008, and November 21, 2008:

- More than **90%** of participants have not made any changes to their accounts
- More than **98%** of participant assets have not moved to different investments

LOOKING FOR PERSPECTIVE

In the world of investments, the past can often provide context for current events. That's because the stock market has always cycled through ups and downs. Although past performance cannot guarantee future results, it's helpful to see how markets have responded to crises in the past.

Market recoveries can happen quickly

The chart below shows how recoveries from market declines have often occurred shortly after the defining event that caused the crisis. These impressive "rebounds" in the U.S. economy occurred within six months of the events.

Stock Market Performance[1] During Crisis Events

Event	Reaction period	Performance during reaction period	One month later[2]	Three months later[2]	Six months later[2]
Korean War	06/23/1950 - 07/13/1950	-12.0%	9.1%	15.3%	19.2%
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2
JFK Assassination	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1
Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0
Gulf War	12/24/1990 - 01/16/1991	-4.3	17.0	19.8	18.7
ERM U.K. Currency Crisis	09/14/1992 - 10/16/1992	-6.0	0.6	3.2	9.2
Russia Mexico Orange County	10/11/1994 - 12/20/1994	-2.8	2.7	8.4	20.7
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0
Russian LTCM Crisis	08/18/1998 - 10/08/1998	-11.3	15.1	24.7	33.7
September 11 Attacks on WTC and Pentagon	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	19.5
	Averages	-9.9	9.8	14.4	20.0

Sources: Ned Davis Research and T. Rowe Price. This example is for illustrative purposes and does not represent the performance of any particular investment. It should not be taken as investment advice or a request to take any particular actions.

Past performance cannot guarantee future results.

[1] The Dow Jones Industrial Average is used as the measure of stock market performance and is made up primarily of large-capitalization companies that represent a broad spectrum of the U.S. economy and a substantial part of the U.S. stock market's total capitalization.

[2] For days after reaction period, 1 month = 22 days, 3 months = 63 days, 6 months = 126 days. The performance of the 1, 3, and 6 months later is calculated from the last day of the reaction period.

Long-term observations offer more perspective

For a more historical view, the chart to the right shows that performance after bear markets (a decline of 20%* or more) has also been strong. For example, the average annual return of the S&P 500 one year following the past six bear markets was 31.4%.

STOCK MARKET PERFORMANCE ONE YEAR AFTER A BEAR MARKET

Market bottom[2]	One year later
September 2002	22.2%
November 1987	18.8%
July 1982	51.8%
September 1974	32.0%
June 1970	37.1%
June 1962	26.7%
Average Annual Return	31.4%

This example is for illustrative purposes only and does not represent the performance of any particular investment. Past performance cannot guarantee future results.

**Analysis: T. Rowe Price. Data source: Monthly S&P 500 Index. Declines of 20% or more from previous market peak, based on month-end index levels. Past performance cannot guarantee future results*

YOUR GAME PLAN

When it comes to saving for retirement, it's all about the Plan. And the most important aspect of your retirement plan is you—your age, your years until retirement, and your retirement income goals.

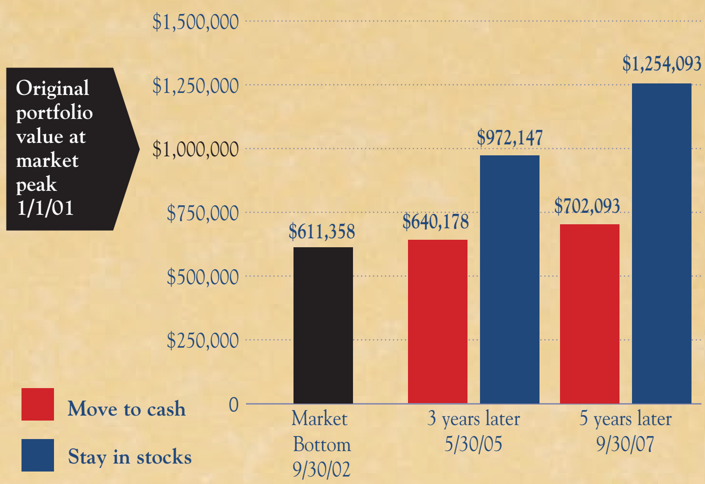
But what should you do with that Plan when the stock market dives and takes the value of your investments down with it? The answer is most commonly to stick with your plan.

Don't let emotions drive your decisions

When markets are falling, the tendency is to move out of stocks. Then when the market goes back up, investors want to own stocks again. Following those emotional impulses can cause investors to "sell low" and "buy high." That's the opposite of what you want to do. Volatile markets can climb as quickly as they fall. Remember, there's nothing you can do to change any paper loss you've already experienced—and you don't want to miss out on a turnaround.

It's tempting to take your money out of stocks when the market is highly volatile. Doing so when the market is down can be a bad decision.

Stay in Stock or Move to Cash**



*** "Stocks" is represented by the S&P 500 Index, which tracks the performance of 500 large-company U.S. stocks. Stocks have historically involved more risk than other types of financial assets. "Cash" is represented by 30-day T-bills. Unlike stocks, T-bills are guaranteed as to the timely payment of interest and principal. Past performance cannot guarantee future results. Investors cannot invest directly in an index. This example is for illustrative purposes only and does not represent the performance of any particular investment.*

Guidance for investing in your retirement Plan

During the current economic environment, it's common to reconsider all of your investments, including those in your retirement Plan. Although investing through a retirement plan—such as a 457 Plan—does not alter the market's affects on your account, there are some big differences from investing directly in the market.

First of all, most contributions to a retirement plan are tax-deferred, and you don't pay taxes until you take a withdrawal, generally when you retire. Also, the State selects the investments that are available in your Plan lineup, usually offering a variety of options from which you can choose. And, with a retirement plan, you always have the option of taking your vested account balance, including rollover amounts, with you if you change jobs.

In some cases, you can keep your savings in your Plan account, and you are always able to roll over your savings into an IRA such as a T. Rowe Price IRA.

Retirement saving is a long-term commitment

If your retirement is still years in the future, it's important to keep your retirement account invested in the market—even when it's falling. That way you'll be able to benefit from a rebound when the market goes back up. Additionally, through your retirement Plan, you're investing the same amount of money each month. Therefore, when prices fall, you're actually buying more shares. These are just a few of the reasons why continuing to save in your tax-deferred retirement account can help you meet your long-term goals.

Five things you can control

When the market takes a deep plunge, it's natural to feel like things are out of your control. But there are some important decisions that are always within your control—and they can have a big impact on your long-term financial standing.

1. Create your strategy based on your time horizon and stick to it! A diversified strategy can help you weather the market's ups and downs and stay focused on your long-term goals.
2. Avoid tapping your retirement account for loans and withdrawals (if they are offered by your plan) when times are tough. You'll need that money down the line so it's important to let it keep working for you.
3. Reduce your spending wherever possible.
4. Keep contributing to your retirement plan and your emergency account.
5. Don't let your emotions get you off track. Remember to keep a long-term perspective and maintain your investment strategy through all market conditions.

Like other investors, you probably have a lot of questions right now. The ***my***RetirementPlan Web site, **rps.troweprice.com**, has helpful investment education and guidance. Additionally, you can call 1-888-457-5770 and speak with **T. Rowe Price representatives**, who are available to assist with your questions during business days between 7 a.m. and 10 p.m. eastern time.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information
800-442-1300/ 217-782-7006
TDD/TTY: 800-526-0844
Internet: http://www.state.il.us/cms/employee/defcom

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.
Account Value Information and Investment Changes:
888-457-5770 or TDD/TTY: 800-521-0325
Internet Access: 800-541-3022
Internet: http://rps.troweprice.com