

Fund Objective and Investment Approach

The CREF Inflation-Linked Bond Account strives to attain a long-term rate of return that outpaces inflation, primarily through investment in inflation-indexed bonds, fixed income securities whose returns are designed to track a specified inflation index over the life of the bond. The Account reflects an emphasis on pure asset class exposure, close management of costs, and disciplined active management. The Account invests at least 80% of its assets in U.S. Treasury Inflation-Indexed Securities and is permitted to invest in other inflation-indexed bonds issued or guaranteed by the U.S. government or its agencies and by corporations and other U.S.-domiciled issuers, as well as by foreign governments. The Account also may invest in money market securities and other short-term instruments.

Performance Commentary

The portfolio attempts to closely track its benchmark by holding all 31 TIPS securities, approximately in the same proportion as the index, and maintaining a duration neutral position to the index. For the one-year period ended December 31, 2010, the CREF Inflation-Linked Bond Account returned 5.89%, trailing by 42 basis points the Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) Index return of 6.31%. The Account lagged over the longer three-, five- and ten-year periods by 51, 50 and 46 basis points, respectively. The account's underperformance is primarily the result of fees.

Fund Characteristics	CREF Inflation-Linked Bond Account
Total Fund Assets	\$8.2 billion
Average Credit Quality	AAA (U.S. Treasury)
Average Maturity	8.89 years
Duration	7.91 years (option-adjusted)
Number of Holdings	31
Fees	0.41% Annually
Portfolio Manager (tenure)	John Cerra (7 years)

Due to the unique investment strategy of this fund, there is not a broad universe of competing funds with which to compare.

Historical Returns

	CREF Inflation-Linked Bond	Custom Inflation-Linked*	Return
	Return	Return	Difference
2001	7.7	7.9	-0.2
2002	16.3	16.8	-0.5
2003	7.6	8.4	-0.8
2004	8.0	8.5	-0.5
2005	2.5	2.8	-0.3
2006	0.0	0.4	-0.4
2007	11.0	11.6	-0.6
2008	-1.8	-2.4	0.6
2009	9.6	11.4	-1.8
2010	5.9	6.3	-0.4
Trailing 3-Year	4.5%	5.0%	-0.5
Trailing 5-Year	4.8	5.3	-0.5
Trailing 10-Year	6.6	7.0	-0.5

*Benchmark changed to Barclays Capital U.S. Treasury Inflation Notes Index on 10/1/03.

Assessment

The CREF Inflation-Linked Bond Account is a low relative risk, duration neutral fixed income strategy that primarily invests in TIPS in an attempt to protect investors from the effects of inflation by producing returns that are indexed to the Consumer Price Index (CPI). Underperformance is attributed to expenses and technical factors. We recommend retention of this option.